

**THE COMMONWEALTH OF MASSACHUSETTS
GENERAL OBLIGATION BONDS
CONSOLIDATED LOAN OF 2010
COLLEGE OPPORTUNITY BONDS, SERIES A
Dated: August 1, 2010
Closing: December 1, 2010**

**TABLE OF CONTENTS
(excluding non-U. Plan statutory material)**

AUTHORIZATION OF THE BONDS

1. Governor's request letter dated December 1, 2010
2. Certain statutory and legislative material.
 - A. Chapter 29, Section 49C of Massachusetts General Laws
 - B. Chapter 15C of Massachusetts General Laws
3. Report of Treasurer and Receiver-General required by Section 49C(b) of Chapter 29 of Massachusetts General Laws
4. Certificate of Secretary of the Finance Advisory Board regarding transaction review.

OFFERING MATERIALS

5. Program Description and Offering Statement dated May 1, 2010, with Form of Enrollment Agreement included as Appendix A
6. Update dated as of May 1, 2010 to the prior year Program Description and Offering Statements.
7. Information Statement of Commonwealth dated June 8, 2010
8. Information Statement Supplement of Commonwealth dated November 10, 2010
9. Bond Purchase Agreement dated November 30, 2010 among the Commonwealth, MEFA, and Bank of America as Custodian, and the Notice of Amendment to the Bond Purchase Agreement

DELIVERY OF THE BONDS

10. Certificate of the Treasurer and Receiver-General and the Secretary of Administration and Finance dated December 1, 2010 pursuant to Paragraph 8(e)(3) of the Bond Purchase Agreement
11. Certificate of Executive Director of MEFA dated December 1, 2010 pursuant to Paragraph 8(e)(12) of the Bond Purchase Agreement
12. Certificate of the Governor, Treasurer and Receiver-General and Secretary dated December 1, 2010 with respect to signatures and other matters
13. Certificate of the Secretary of the Commonwealth as to members of the Authority
14. General Certificate of the Authority, signed by the Executive Director and Secretary as to, among other things:
 - (1) Incumbency and signatures;
 - (2) Resolution adopted at the Authority's meeting of September 8, 1994 relating to the U. Plan
15. Incumbency certificate for Custodian
16. Certificate as to Tax Matters dated December 1, 2010 of the Treasurer and Receiver-General pursuant to Paragraph 8(e)(10) of the Bond Purchase Agreement
17. Certificate dated December 1, 2010 of the Attorney General pursuant to Paragraph 8(e)(2) of the Bond Purchase Agreement
18. Certificate dated December 1, 2010 of the Executive Director of MEFA pursuant to Paragraph 8(e)(2) of the Bond Purchase Agreement
19. Certificate dated December 1, 2010 of the Treasurer and Receiver-General as to Bond allocation, as contemplated by Section 49 of Ch. 29 of MGLA.
20. Certificate dated December 1, 2010 of the Comptroller with respect to schedule of bond funds
21. Certificate dated December 1, 2010 of the Treasurer and Receiver-General and the Comptroller with respect to the Debt Limit
22. Cross Receipt dated December 1, 2010, together with receipt of Authority

- 23. Specimen Bonds
- 24. Form 8038-G Information Return for Tax-Exempt Governmental Bond Issues

OPINIONS

- 25. Opinion dated December 1, 2010 of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. addressed to the Treasurer and Receiver-General, together with a reliance letter to MEFA and the Custodian pursuant to Paragraph 8(e)(4) of the Bond Purchase Agreement
- 26. Opinion dated December 1, 2010 of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. pursuant to Paragraph 8(e)(5) of the Bond Purchase Agreement
- 27. Opinion dated December 1, 2010 of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. pursuant to Paragraph 8(e)(6) of the Bond Purchase Agreement
- 28. Opinion dated December 1, 2010 of Edwards Angell Palmer & Dodge LLP pursuant to Paragraph 8(e)(7) of the Bond Purchase Agreement
- 29. Opinion dated December 1, 2010 of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. pursuant to Paragraph 8(e)(8) of the Bond Purchase Agreement
- 30. Opinion dated December 1, 2010 of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. pursuant to Paragraph 8(e)(9) of the Bond Purchase Agreement and Section 3.01 of the Custody Agreement

PROGRAM DOCUMENTS

- 31. Custody Agreement dated February 1, 1996 between MEFA and Bank of America (formerly known as Fleet National Bank, as successor trustee to Shawmut Bank, N.A.)
- 32. Supplement to Custody Agreement dated December 1, 2010 pursuant to Section 3.01 of Custody Agreement
- 33. Certificate of Custodian as to receipt of purchase price from Authority
- 34. Custodial Account Agreement dated February 1, 1995 between MEFA and Bank of America (formerly known as Fleet National Bank, as successor trustee to Shawmut Bank, N.A.)
- 35. Form of Participation Agreement with Participating Institutions

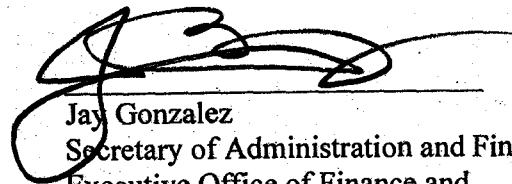
December 1, 2010

His Excellency Deval L. Patrick
Governor of the Commonwealth
State House
Boston, Massachusetts 02133

Dear Governor Patrick:

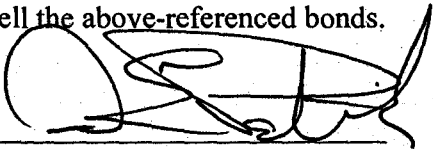
The attached schedule will serve as a guide to the Treasurer and Receiver-General in allocating net proceeds of the Commonwealth's General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A, in the amount of \$8,425,898.26, pursuant to Section 49C of Chapter 29, and Chapter 15C of the General Laws and the statutes cited in the schedule, to provide funds required to reimburse the General Fund.

Respectfully submitted,



Jay Gonzalez
Secretary of Administration and Finance,
Executive Office of Finance and
Administration

I hereby request the Treasurer
and Receiver-General to issue and
sell the above-referenced bonds.



Deval L. Patrick, Governor

Date: December 1, 2010

Schedule A

THE COMMONWEALTH OF MASSACHUSETTS

General Obligation Bonds,

Consolidated Loan of 2010,

College Opportunity Bonds, Series A

1. Highway Improvement Loan Act of 2007.

Acts of 2007, Chapter 27, Section 7

Sub Fund (211-527C)

2. Transportation Improvement Loan Act of 2008.

Acts of 2008, Chapter 86, Section 24

Sub Fund (211-549C)

date; (3) no one sale to a purchaser of minibonds shall be in an aggregate principal amount equal to or greater than five thousand dollars; and (4) each minibond shall provide that it shall be redeemed by the commonwealth upon due presentation by an appropriate person on any business day after one year from its date of sale by the state treasurer at such price as the state treasurer shall determine according to a schedule established with respect to each issue of minibonds prior to the sale thereof. The state treasurer may adopt regulations with respect to the issuance and sale of minibonds. A facsimile of the signature of the state treasurer on minibonds shall have the same validity and effect as his written signature. Sections forty-five, forty-nine, and fifty-three of this chapter shall not apply to the issuance of minibonds.

29:45B. Insurance or credit line security for bonds and notes; agreements with brokers; liability limits.

Section 45B. In addition to any other security provided by law, bonds and notes of the commonwealth may, in the discretion of the state treasurer, be secured or supported, in whole or in part, by insurance or by lines or letters of credit or other credit or liquidity facilities provided by any bank, trust company or other financial institution.

The state treasurer may enter into agreements with brokers for the placement of any such commonwealth notes issued as commercial paper.

29:45C. College savings programs; issuance and sale of bonds; powers and duties of state treasurer.

Section 45C. (a) In issuing bonds of the commonwealth, pursuant to the provisions of law applicable thereto, the state treasurer is authorized, pursuant to the conditions set forth in this section, to set aside and issue portions of said bonds in such form as shall be appropriate for the purposes of the college opportunity program, as defined in section five A of chapter fifteen C, or for the purposes of such other college savings programs as may be established pursuant to paragraph (f)(vi) of section five of said chapter fifteen C.

(b) Before issuing any bonds in a fiscal year for the use of a college savings program, the state treasurer shall prepare a report establishing the maximum amount of bonds to be issued in that year for use of such programs. Said report, and any subsequent amendment thereto which revises said maximum amount, shall include the state treasurer's reasons for determining that it is prudent for the commonwealth to authorize use of such bonds to the stated extent, in light of the anticipated future interest and principal payments on such bonds, as compared to the anticipated interest and principal payments on commonwealth bonds not issued in connection with such programs, and in light of available financial arrangements to limit or control the commonwealth's potential costs

of meeting its obligations on such bonds, and in light of such other considerations as the state treasurer shall deem relevant. The state treasurer shall file copies of said report, and of any amendments therein, with the Educational Financing Authority, the secretary of administration and finance, and the house and senate ways and means committees.

(c) For the purposes of issuing bonds to support college savings programs, the state treasurer shall have, in addition to his other powers and duties, the following additional powers and duties:

(i) To employ financial, marketing, legal and other consultants and advisors for the purpose of consulting with the commonwealth on the implementation and ongoing administration of the savings programs and to enter into contracts and agreements necessary in connection therewith.

(ii) To enter into appropriate agreements or arrangements with banks or other financial institutions or with other departments or agencies of the commonwealth or other public entities to provide protection for the commonwealth from risks associated with the variable interest rate on such bonds, and to provide liquidity for purchasers of such bonds in the event of extraordinary circumstances which require them to have access to their capital, including but not limited to interest rate swap agreements, interest rate caps, liquidity facilities, futures agreements, letters of credit and similar arrangements, including provisions regarding the custody of commonwealth funds and the maintenance of collateral and other security for the commonwealth's obligations thereunder.

(iii) To establish procedures to ensure that interest on such bonds is and remains excludable from the gross income of the owners thereof for federal income tax purposes.

(iv) To establish a schedule of fees and charges, including premiums in connection with the sale of such bonds, sufficient to provide for the estimated costs of the program incurred by the commonwealth, including the costs of any agreements or arrangements entered into pursuant to paragraph (ii) and reasonable amounts to allow the commonwealth to self-insure against possible variations in interest rates on such bonds; provided that the difference in anticipated future interest and principal payments on such bonds as compared to the anticipated interest and principal payments on commonwealth bonds not issued in connection with such programs shall not exceed five million dollars per year. Any such fees or charges shall be received by the state treasurer impressed with a trust on behalf of the participants in such college savings programs and shall be deposited in a separate fund. The amounts in said fund, including any income earned on amounts therein, shall be expended by the state treasurer, without appropriation, solely for the commonwealth's cost of operating such college savings programs, including without limitation the costs of agreements or arrangements entered into

pursuant to paragraph (ii) and the costs of self-insuring against variations in interest rates on such bonds.

(v) To take such further actions and establish such further procedures as shall be appropriate to carry out the purposes of the savings programs.

(d) All bonds, or units of participation therein, issued pursuant to this section shall be subject to the following provisions:

(i) Any payment received by a purchaser of such bonds or units of participation in accordance with the provisions of this section and chapter fifteen C and the interest or other income earned in connection therewith shall be exempt from all taxation by the commonwealth and any of its political subdivisions, including income, commonwealth, transfer, inheritance, death and personal property taxes.

(ii) The bonds and units of participation are hereby made securities in which administrators, guardians, executors, trustees, fiduciaries, and others authorized to invest in bonds of the commonwealth may properly and legally invest funds and shall be exempt from qualification and registration under the securities laws of the commonwealth.

(iii) The commonwealth hereby covenants and agrees to take all steps reasonably necessary to provide that interest on said bonds and units of participation whenever paid or accrued shall be excluded from the gross income of any person having an interest therein under the Internal Revenue Code of 1936 as amended from time to time.

(e) The provisions of section fifty-three shall not apply to the sale of any bonds issued in connection with college savings programs.

29:50. Accounts includable in state tax; certification.

Section 50. The state treasurer shall annually in December certify to the budget director the amount necessary to be included in the state tax for the fiscal year beginning on July first following, to provide for serial and sinking fund payments with respect to any bonds or notes of the commonwealth, and each such amount shall be included in the state tax for the year for which it is so certified.

29:51. Assessments on metropolitan districts for bonds.

Section 51. On all bonds issued for the benefit of any of the metropolitan districts, so called, the state treasurer shall assess upon the said metropolitan districts annually amounts necessary to provide for the serial and sinking fund payments falling due with respect to such bonds.

29:52. Application of premiums; bonds or notes.

Section 52. Any premium received on the sale of notes shall be applied to the costs of issuance thereof and other financing costs related

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**MASSACHUSETTS EDUCATIONAL
FINANCING AUTHORITY**

ENABLING ACT

MGL Chapter 15C, as added by the Acts of 1981, Chapter 803

**AN ACT ESTABLISHING THE MASSACHUSETTS EDUCATIONAL
FINANCING AUTHORITY**

Chapter 803 of the Acts of 1981 as amended by Chapter 356 of the Acts of 1982, Chapter 65 of the Acts of 1984, Chapter 189 of the Acts of 1984, Chapter 463 of the Acts of 1984, Chapter 78 of the Acts of 1988, Chapter 655 of the Acts of 1989, Chapter 133 of the Acts of 1992, Chapter 286 of the Acts of 1992, Chapter 110 of the Acts of 1993 and Chapter 495 of the Acts of 1993.

Chap. 803

**AN ACT ESTABLISHING THE MASSACHUSETTS
EDUCATIONAL FINANCING AUTHORITY.**

Whereas, the deferred operation of this act would tend to defeat its purpose, which is to immediately establish a Massachusetts college student loan authority, therefore it is hereby declared to be an emergency law, necessary for the immediate preservation of the public convenience.

Be it enacted, etc., as follows:

The General Laws are hereby amended by inserting after Chapter 15B, inserted by Section 191 of Chapter 351 of the Acts of 1981, the following chapter:

**CHAPTER 15C
MASSACHUSETTS EDUCATIONAL FINANCING AUTHORITY**

Policy and Purpose.

Section 1. It is declared that for the benefit of the people of the commonwealth, the increase of their commerce, welfare and prosperity and the improvement of their health and living conditions, it is essential that this and future generations of youth be given the fullest opportunity to learn and to develop their intellectual capacity and skills. It is declared further that the people of the commonwealth have a direct interest in promoting the education of its citizens and in maintaining and strengthening its system of higher education and that such actions are likely to result in a higher standard of living and higher levels of employment for citizens of the commonwealth. It is recognized that costs connected with undergraduate and graduate higher education are increasingly burdensome and that it is essential that students attending institutions for higher education in the commonwealth and residents of the commonwealth attending

institutions for higher education outside the commonwealth, as well as parents and others responsible for paying the costs thereof, be provided with lower cost financial assistance and with convenient and effective savings programs in order to provide for such costs. It is also recognized that educational institutions for higher education within the commonwealth should be provided with appropriate additional means to provide financial assistance to qualified students and to parents and others responsible for paying the costs of education. It is also recognized that, in order to achieve these objectives, it is desirable for the commonwealth to make such financial assistance and savings programs available on a reciprocal basis to students in and residents of other states. Accordingly, it is the purpose of this chapter and the policy of the commonwealth to provide financial assistance, including loans and savings programs, for the benefit of residents of and students in the commonwealth, their parents and others responsible for the costs of their education and alternative methods to enable institutions for higher education in the commonwealth to assist qualified students, and to make such benefits available on a reciprocal basis to students and institutions in and residents of other states, all to the public benefit and good, to the extent and in the manner provided herein.

Short Title.

Section 2. This chapter may be referred to and cited as the "Massachusetts Educational Financing Authority Act".

Definitions.

Section 3. As used in this chapter, the following words shall, unless the context otherwise requires, have the following meanings:-

"Authority", the Educational Financing Authority established by section four.

"Authority loans", loans made by the Authority to other parties from the proceeds of its bonds or from other sources for the purpose of funding education loans.

"Bonds" or "revenue bonds", revenue bonds or notes of the Authority issued under the provisions of this chapter, including refunding bonds or notes.

"Bond resolution", the resolution or resolutions of the Authority and the trust agreement or trust agreements, if any, authorizing the issuance of and providing for the terms and conditions applicable to bonds.

"Borrower", a student or any person who has received or agreed to pay an education loan on behalf of a student.

"Commonwealth bonds", any evidence of general obligation indebtedness issued by the commonwealth.

"Default insurance", insurance, letters of credit, standby credit agreements, take-out commitments, agreements or other forms of credit insuring against default or guaranteeing timely payment with respect to education loans, Authority loans or bonds.

"Default reserve fund", a fund established pursuant to a bond resolution for the purpose of securing education loans, Authority loans or bonds.

"Education loan", a loan to a borrower to finance or refinance a student's attendance at an institution for higher education made by or on behalf of such an institution or by a financial institution, which loan is made from or in anticipation of an Authority loan or is purchased by the Authority, or such a loan made directly by the Authority.

"Education loan series portfolio", all education loans made by or on behalf of a specific institution for higher education or participation therein by the Authority and one or more financial institutions which are funded in whole or in part from the proceeds of an Authority loan to such institution out of the proceeds of a related specific bond issue through the Authority.

"Financial index", a number or percentage compiled or reported periodically by an independent party used to indicate change in cost, price or other magnitude at a specified time, or a rate of interest charged by a particular lender or type of lender from time to time for loans of a particular kind.

"Loan funding deposit", monies or other property deposited by or on behalf of an institution for higher education with the Authority or its bond trustee or other agent for the purpose of (i) providing security for bonds, (ii) funding a default reserve fund, (iii) acquiring default insurance, or (iv) defraying costs of the Authority, such monies or properties to be in such amounts as deemed necessary by the Authority as a condition for such institution's participation in the authority's programs.

"Institution for higher education", a nonprofit degree-granting educational institution within the commonwealth, whether public or private, authorized by law to provide a program of education beyond the secondary school level or any like institution located in a state other than the commonwealth if, in the judgment of the Authority, participation of institutions in such state in one or more programs of the Authority will be beneficial to citizens of the commonwealth and if, to the Authority's satisfaction, such state has agreed to provide reciprocal opportunities to institutions located in the commonwealth.

"Participating institution for higher education", an institution for higher education which, pursuant to the provisions of this chapter, undertakes or agrees to participate in an education loan program or a savings program of the Authority as provided in this chapter.

"Parent", any parent, legal guardian or sponsor of a student at an institution for higher education.

"Savings program", a program approved and administered by the Authority designed to facilitate and encourage savings by or on behalf of students, future students, and parents for the purpose of paying for the costs of attendance at institutions of higher education.

"Tuition agreement", a contractual arrangement between the Authority and an institution of higher education fixing all or a portion of the direct cost of attendance at such institution in one or more future years at a specified amount subject to adjustment in accordance with one or more financial indices.

Massachusetts Educational Financing Authority; members; terms; meetings; surety bond; conflict of interest.

Section 4. (a) There is hereby established a body politic and corporate to be known as the Massachusetts Educational Financing Authority, herein called the Authority. The Authority is constituted a public instrumentality and the exercise by the Authority of the powers granted by this chapter shall be deemed and held to be the performance of an essential public function. The Authority shall consist of nine members who shall be residents of the commonwealth, not more than five of whom shall be members of the same political party. Seven members shall be appointed by the governor. At least four of the members shall be trustees, directors, officers or employees of public or private institutions for higher education in the commonwealth. At least three of the members shall be persons having a favorable reputation for skill, knowledge and experience in the fields of state and municipal finance, banking, law or investment advice or management. The other two members of the Authority shall be the secretary for economic affairs ex officio and the commissioner of administration ex officio, or their designees. The members of the Authority first appointed shall serve for terms expiring on July first in the years nineteen hundred and eighty-three, nineteen hundred and eighty-four, nineteen hundred and eighty-five, nineteen hundred and eighty-six, nineteen hundred and eighty-seven, and nineteen hundred and eighty-eight, respectively, the term of each such member to be designated by the governor. The term of each ex officio member shall be concurrent with his tenure in that office. Upon the expiration of the term of any originally appointed member his successor shall be appointed for a term of six years. The governor shall fill any vacancy for the remainder of the unexpired term. Any member of the Authority may be removed by the governor for misfeasance, malfeasance or willful neglect of duty of other cause after notice and a public hearing unless such notice and hearing shall be expressly waived in writing. Members of the Authority may serve for successive terms of office.

(b) The authority shall annually elect one of its members as chairman and one as vice-chairman. It may appoint an executive director and assistant

executive director, who shall not be members of the Authority, who shall serve at the pleasure of the Authority. They shall receive such compensation as shall be fixed by the Authority.

(c) The executive director or assistant executive director or other person designated by resolution of the Authority shall keep a record of the proceedings of the Authority and shall be custodian of all books, documents and papers filed with the Authority, the minute book or journal of the Authority, and its official seal. Said executive director or assistant executive director or other person may cause copies to be made of all minutes and other records and documents of the Authority and may give certificates under the official seal of the Authority to the effect that such copies are true copies, and all persons dealing with the Authority may rely upon such certificates.

(d) Five members of the Authority shall constitute a quorum. The affirmative vote of a majority of all the members of the Authority shall be necessary for any action taken by the Authority. A vacancy in the membership of the Authority shall not impair the right of a quorum to exercise all the rights and perform all the duties of the Authority. Any action taken by the Authority under the provisions of this chapter may be authorized by resolution at any regular or special meeting, and each such resolution shall take effect immediately and need not be published or posted.

(e) Before the issuance of any bonds or notes under the provisions of this chapter, the chairman, vice-chairman, executive director and assistant executive director and any other member of the Authority authorized by resolution of the Authority to handle funds or sign checks of the Authority shall execute a surety bond in the penal sum of fifty thousand dollars, or in lieu thereof the chairman shall obtain a blanket position bond covering the executive director and every member and other employee of the Authority in the penal sum of fifty thousand dollars. Each such bond shall be conditioned upon the faithful performance of the duties of the principal or the members, executive director and other employees, as the case may be, shall be executed by a surety company authorized to transact business in the commonwealth as surety, shall be approved by the attorney general and shall be filed in the office of the state secretary. The cost of each such bond shall be paid by the Authority.

(f) The members of the Authority shall receive no compensation for the performance of their duties hereunder but each such member shall be paid his necessary expenses incurred while engaged in the performance of such duties.

(g) Any member, officer, agent or employee of the Authority who, directly or indirectly, has any financial interest in any organization participating in any program of the Authority shall be punished by a fine of not less than fifty dollars nor more than one thousand dollars, or by imprisonment for not more than one month, or both.

(h) Notwithstanding any provision of chapter two hundred and sixty-eight A, a present or former employee of the commonwealth, or of any political subdivision thereof, or of any state, county or municipal agency as defined in said chapter two hundred and sixty-eight A may be a Borrower of an education loan. Nor shall participating institutions for higher education be subject to the provisions of section ninety-six of chapter one hundred and forty.

Notwithstanding the provisions of paragraph (g) or the provisions of any other law to the contrary, it shall not be or constitute a conflict of interest or violation of the provisions of said paragraph (g) or the provisions of any other law for a trustee, director, officer or employee of a participating institution for higher education or for a person having the required favorable reputation for skill, knowledge and experience in state and municipal finance to serve as a member of the Authority; provided, in each case to which provisions are applicable, such trustee, director, officer or employee of such participating institution for higher education abstains from discussion, deliberation, action and vote by the Authority in specific respect to any undertaking pursuant to this chapter in which such participating institution for higher education participates in an education loan, or otherwise has an interest, or any such person having the required favorable reputation for skill, knowledge and experience in state and municipal finance abstains from discussion, deliberation, action and vote by the Authority in specific respect to any sale, purchase or ownership of bonds or education loans of the Authority in which the investment banking firm or insurance company or bank of which such person is a partner, officer or employee has a past, current or future interest.

Purpose of Authority; powers.

Section 5. The purpose of the Authority shall be to assist borrowers and institutions for higher education in the financing and refinancing of the costs of education and to provide students and parents with convenient and effective savings programs, and for these purposes the Authority is authorized and empowered:

- (a) to adopt by-laws for the regulation of its affairs and the conduct of its business;
- (b) to adopt an official seal and alter the same at pleasure;
- (c) to maintain an office at such place or places in the commonwealth as it may designate;
- (d) to sue and be sued in its own name, plead and be impleaded;
- (e) to determine criteria and guidelines encompassing the type of and qualifications for education loan financing programs. The criteria and guidelines

established by the Authority for its education loan financing programs shall include such eligibility standards for borrowers as the Authority shall determine are necessary or desirable in order to effectuate the purposes of the chapter, including the following: - (i) each student shall have a certificate of admission or enrollment at a participating institution for higher education, (ii) each student or his or her parents shall satisfy such financial qualifications as the Authority shall establish to effectuate the purposes of the chapter, and (iii) each student and his parents shall submit such information as may be required by the Authority to his or her institution of higher education;

(i) to establish specific criteria governing the eligibility of institutions for higher education to participate in its programs, and for the making of Authority loans and education loans, provisions for default, the establishment of default reserve funds, the purchase of default insurance, the provisions by such institutions of prudent debt service reserves, and the furnishing by participating institutions for higher education and others of such additional guarantees of the education loans, Authority loans or the bonds as the Authority shall determine, all of such criteria to be established to assure the marketability of the bonds and the adequacy of the security for the bonds. The criteria governing the eligibility of institutions for higher learning shall include limitations upon the principal amounts and the terms of education loans, criteria regarding the qualifications and characteristics of borrowers and procedures for allocating authority loans among institutions of higher education eligible for its program in order to effectuate the purposes of the chapter;

(f 1/2) to develop and administer one or more savings programs and to enter into tuition agreements on behalf of itself, the commonwealth, students, parents or any other private parties, all in cooperation with such other public and private parties and in accordance with such criteria or guidelines as the Authority shall deem appropriate to effectuate the purposes of this chapter. To the extent practicable, such savings program or programs shall provide students or parents an opportunity to participate conveniently and shall enable them to set aside relatively small amounts of money at a time and shall incorporate or be available in conjunction with, directly or indirectly, tuition agreements from as many institutions of higher education as feasible. To the extent practicable, and subject to the approval of the state treasurer, at least one such savings program shall include a college opportunity program, as described in section five A. In connection with any savings program or tuition agreement the Authority may accept and hold funds of students, parents, institutions of higher education or others, establish special accounts for such purposes and invest such funds in such manner as is authorized for Authority funds under section eighteen.

(g) to establish rules and regulations with respect to Authority loans, educational loans, savings programs and tuition agreements.

(h) to receive and accept from any source loans, contributions or grants for or in aid of an Authority education loan financing program or savings

program or any portion thereof and, when desirable, to use such funds, property or labor only for the purposes for which it was loaned, contributed or granted;

(i) to contract with guarantors, financial institutions or other qualified loan origination and servicing organizations, which shall assist in prequalifying borrowers for education loans and which shall service and administer each education loan. The Authority may require that each borrower be charged a fee to defray the costs of origination, servicing and administration of education loans. The amount and method of collection of such fee shall be determined by the Authority. Participating institutions for higher education may perform these acts if authorized by the Authority;

(j) to contract with a guarantor to provide security for the payment of education loans through the issuance of default insurance or letters of credit or other credit arrangements or to provide a guarantee of payment covering all or a portion of each education loan made by or on behalf of the Authority or by or on behalf of an institution for higher education from the proceeds of an Authority loan.

(k) to employ attorneys, accountants, consultants, financial experts, loan processors, banks, managers, and such other employees and agents as may be necessary in its judgment, and to fix their compensation;

(l) to make direct education loans or to purchase education loans from or to make Authority loans to participating institutions for higher education or financial institutions and require that the proceeds of such Authority loans be used for making education loans, funding reserves, providing for capitalized interest and paying other costs and fees involved in making education loan or issuing bonds;

(l 1/2) to sell education loans or Authority loans to such buyers on such terms and in such amounts as the Authority may determine.

(m) to charge and equitably apportion among participating institutions for higher education its administrative costs and expenses incurred in the exercise of the powers and duties granted by this chapter;

(n) to borrow working capital funds and other funds as may be necessary for start-up and continuing operations, as long as such funds are borrowed in the name of the Authority only. Such borrowings shall be limited obligations of the character described in section twelve and shall be payable solely from revenues of the Authority or the proceeds of bonds pledged for that purpose;

(o) notwithstanding any other provisions in this chapter, to commingle and pledge as security for one or more series or issues of bonds, only with the consent of all of the institutions of higher education which are participating in such series or issues, (a) the education loan series portfolios and some or all

future education loan series portfolios of such institutions of higher education; and
(b) the loan funding deposits of such institutions. Bonds may be issued in series under one or more resolutions or trust agreements in the discretion of the Authority.

(p) to examine records and financial reports of participating institutions for higher education, and to examine records and financial reports of any person, organization or institution retained under clauses (i), (j) or (k) of this section;

(q) to do all things necessary or convenient to carry out the purposes of this chapter.

In carrying out the purposes of this chapter, the Authority may issue bonds the proceeds of which are loaned to two or more participating institutions for higher education or for any combination of participating institutions for higher education and, thereupon all other provisions of this chapter shall apply to and for the benefit of the Authority and the participants in such joint project or projects. Any such joint participation requires the express approval of all participants.

The Authority shall require that Authority loans be used solely for the purpose of education loans and in an amount not to exceed the total cost of attendance, as defined by the Authority, less other forms of student assistance. The Authority shall require that institutions for higher education shall insist that each borrower under an education loan shall use the proceeds solely for educational purposes and purposes reasonably related thereto and that each such borrower shall so certify.

Whenever refunding bonds are issued to refund bonds the proceeds of which were used to make Authority loans, the Authority may reduce or increase the amount it is owed by the institution for higher education which had received Authority loans from the proceeds of the refunded bonds. Such institutions of higher education may reduce or increase the amount of interest being paid on education loans which the institution has made pursuant to the Authority loans from the proceeds of the refunded bonds.

Section 5A. The Authority shall, subject to paragraph (f 1/2) of section five, establish a college opportunity program, which shall, to the extent feasible, include the following elements:-

(a) In cooperation with the state treasurer, the Authority shall make available commonwealth bonds, including bonds in small denominations or units of participation in commonwealth bonds, for purchase on behalf of named beneficiaries who are anticipated to use the payments on said bonds to provide for costs of attendance at institutions of higher education. Said bonds or units of participation, either or both of which shall be referred to for purposes of this section as college opportunity bonds, shall bear interest at a variable rate determined by reference to a financial index reflecting inflation in costs of

attendance at such institutions. No payments of interest or principal on said bonds shall be made except upon maturity or earlier redemption. Said bonds shall be made available with varied and flexible redemption and maturity dates, as required to accommodate the savings requirements for beneficiaries who intend to use the principal and interest on said bonds to provide for costs of higher education. The Authority shall make the arrangements necessary to enable purchasers of college opportunity bonds to make purchases by convenient means, including but not limited to the use of payroll savings plans or other recurrent payments of relatively small amounts. Purchasers of college opportunity bonds may be required to pay fees or to buy said bonds at a premium to cover all or part of the costs of issuance, of administration of the college opportunity program, and of the cost to the commonwealth of associated financial arrangements to limit or control the commonwealth's interest costs for college opportunity bonds.

(b) The Authority shall enter into tuition agreements with public and private institutions of higher education to ensure that tuitions charged to college opportunity bond beneficiaries do not rise at a rate greater than the return on college opportunity bonds. Under such agreements, such institutions will agree, as a condition of being accepted as participating institutions in the college opportunity program, that the tuition charged to a student who pays for said tuition with the proceeds from principal and interest payments from college opportunity bonds will not increase over the tuition at the time of original issuance and sale of said bonds at a rate greater than the interest rate on said bonds and to such other terms as the Authority may require.

(c) The Authority shall, in consultation with the state treasurer, establish rules and regulations for the redemption of college opportunity bonds. Such rules shall provide that such bonds, when redeemed for use in meeting costs of the named beneficiary's higher education at a participating institution or for purchase of additional college opportunity bonds, shall be redeemed for the full value provided for pursuant to paragraph (a). Such rules shall further provide for one or more penalties that reduce such redemption value when college opportunity bonds are redeemed for use in meeting costs of the named beneficiary's higher education at an institution other than a participating institution or when they are redeemed for use for other purposes. Such rules shall further allow for the substitution, in appropriate circumstances, of a sibling or other close relative in place of the named beneficiary, for the purposes of the restrictions imposed by this paragraph and may allow for early redemption in cases of extreme hardship.

(d) The Authority shall study, and shall consult with the state treasurer and the secretary of administration and finance concerning, the practicability and the desirability of the commonwealth entering into financial arrangements, pursuant to section thirty-eight C of chapter twenty-nine, to limit or control the potential costs to the commonwealth of meeting its interest obligations on college opportunity bonds.

(e) The Authority shall investigate the possibility of, and, if feasible, shall negotiate, reciprocal agreements with other governmental entities offering similar college savings plans. Such agreements shall be designed to allow named beneficiaries of college opportunity bonds to use such bonds for educational costs, and to receive the benefits of tuition agreements, as the widest possible range of institutions of higher education, and to allow institutions of higher education in the commonwealth to receive the benefits of participation in college savings programs established by other governmental entities.

Section 5B. For the purposes of implementing and administering savings programs, pursuant to paragraph (f 1/2) of section five, the Authority shall have, in addition to all other powers and duties provided by this chapter, the following additional powers and duties:

(a) To create and supervise a marketing and distribution system for bonds or other units of participation in savings programs, either in both of which shall be referred to for purposes of this section as "units", and to establish proper books of record and account to record the identity of the purchasers and the named beneficiaries, the amounts payable as principal and interest, the receipts and expenses of the Authority with respect to the program and other matters necessary to the administration of the program.

(b) To establish minimum and maximum unit amounts with respect to the savings programs, procedures for the crediting of interest accrued with respect to the units, procedures with respect to payment of the balance due on the final maturity date of a unit or otherwise, procedures with respect to the determinations of eligible beneficiaries, and procedures to accommodate the acquisition of units through payroll savings plans and other similar programs.

(c) To employ financial, marketing, legal and other consultants and advisors for the purpose of consulting with the Authority on the implementation and ongoing administration of the savings programs and to enter into contracts and agreements necessary in connection therewith.

(d) To provide for the terms and conditions of participation in savings programs by participating institutions and to prescribe the form of, from time to time, and to execute such contracts and agreements with the participating institutions as shall be appropriate to reflect such terms and conditions.

(e) To enter into one or more contracts and agreements for marketing, distribution and administration services in connection with savings programs.

(f) To obtain by purchase, lease or license such equipment and facilities, including computer software and hardware, and to employ staff necessary or convenient to carry out the savings programs.

(g) To establish a schedule of fees and charges, including premiums in connection with the sale of units of savings, sufficient to provide for the estimated costs of the program incurred by the Authority.

(h) To take such further actions and establish such further procedures as shall be appropriate to carry out the purposes of the savings programs.

Section 5C. The authority is hereby authorized to develop and establish a comprehensive state-supported supplemental education loan program. Such program shall consist of medium and long-range fixed rate and variable rate loan programs, programs structured to operate as a line of credit, and other programs and options as the authority may determine to be useful and feasible. Such programs shall be at effective rates of interest and other terms, to the extent feasible and to the extent funds are appropriated by the commonwealth therefor, more attractive than prevailing rates and more attractive than other terms available from conventional supplemental education lenders.

The authority's program shall be developed and operated in conjunction with participating institutions of higher education and shall be designed to assist such institutions in attracting and retaining students. Such program shall be designed so as to maximize the amount of funds available for loans by leveraging amounts appropriated by the commonwealth with private sector financing and by operating in conjunction with such private activity tax-exempt bond cap as may be allocated by the commonwealth. Such program shall include, to the maximum extent feasible and subject to the appropriation of funds by the commonwealth, loans available on affordable terms to families or individuals who, because of a high debt-to-income ratio, may otherwise be ineligible for credit-based supplemental education loans.

The authority shall design such comprehensive program, and make the public aware of it, in such manner as to provide assistance to as many qualified students and to as many institutions of higher education as possible. Funds appropriated by the commonwealth to the authority for the purpose of this section shall be applied by the authority solely to the reasonable and necessary development costs of its programs and to the funding of reasonable and necessary reserves and other security arrangements for its programs, all, to the extent feasible, in such manner as to develop over time a self-replenishing permanent source of education loan funding.

Payment of expenses.

Section 6. All expenses incurred in carrying out the provisions of this chapter shall be payable solely from funds provided under the authority of this chapter and no liability or obligations shall be incurred by the Authority hereunder beyond the extent to which monies shall have been provided under the provisions of this chapter.

Guidelines for deposits of monies, endowments, etc.; default reserve fund.

Section 7. The Authority is authorized and empowered to establish specific guidelines relating to the deposits of certain monies, endowments, or properties by institutions for higher education which would provide security for education loans funding programs, Authority loans, education loans or for bonds and to establish guidelines relating to guarantees of or contracts to purchase education loans, tuition agreements or bonds by such institutions or by financial institutions or others. A default reserve fund may be established for each series or issue of bonds. In this regard, the Authority is empowered to receive such monies, endowments, properties, and guarantees as it deems appropriate and, if necessary, to take title in the name of the Authority or in the name of a participating institution for higher education or a trustee.

Conveyance of assets comprising loan funding deposits.

Section 8. When the principal of, interest on and premium, if any, due in connection with bonds of the Authority issued to finance the cost of an education loan financing program or programs, including any refunding bonds issued to refund and refinance such bonds, have been fully paid and retired or when adequate provision has been made to fully pay and retire the same, and all other conditions of the bond resolution authorizing the same have been satisfied and the security interest or lien created by such bond resolution has been released in accordance with the provisions thereof, the Authority shall promptly do such things and execute such deeds and conveyances as are necessary and required to convey any remaining monies, properties and other assets comprising loan funding deposits to the participating institutions for higher education which furnished the same in proportion to the amounts furnished by the respective participating institutions for higher education.

Negotiable notes; issuance; terms or conditions.

Section 9. The Authority may from time to time issue negotiable notes for any corporate purpose and may from time to time renew any notes by the issuance of new notes, whether the notes to be renewed have or have not matured. The Authority may issue notes partly to renew notes or to discharge other obligations then outstanding and partly for any other purpose. The notes may be authorized, sold, executed and delivered in the same manner as bonds. Any resolution or resolutions authorizing notes of the Authority or any issue thereof may contain any provisions which the Authority is authorized to include in any resolution or resolutions authorizing revenue bonds of the Authority or any issue thereof, and the Authority may include in any notes any terms, covenants or conditions which it is authorized to include in any bonds. Such resolution or resolutions may delegate to the executive director, assistant executive director, or

any member of the Authority or any combination of them, the power to determine any of the details of the notes and to award such notes to a purchaser or purchasers. All such notes shall be payable solely from the revenues of the Authority, subject only to any contractual rights of the holders of any of its notes or other obligations then outstanding.

Revenue bonds, notes, etc.; issuance; authorization by resolution; resolution provisions; liability.

Section 10. (a) The Authority may from time to time issue revenue bonds for any corporate purpose and all such revenue bonds, notes, bonds anticipation notes or other obligations of the Authority issued pursuant to this chapter shall be and are hereby declared to be negotiable for all purposes notwithstanding their payment from a limited source and without regard to any other law or laws subject only to the provisions of revenue bonds or notes for registration. In anticipation of the sale of such revenue bonds, the Authority may issue negotiable bond anticipation notes and may renew the same from time to time, but the maximum maturity of any such note, including renewals thereof, shall not exceed five years from the date of issue of the original note. Such notes shall be paid from any revenues of the Authority available therefor and not otherwise pledged, or from the proceeds of sale of the revenue bonds of the Authority in anticipation of which they were issued. The notes shall be issued in the same manner as the revenue bonds. Such notes and the resolution or resolutions authorizing the same may contain any provisions, conditions or limitations which a bond resolution of the Authority may contain.

(b) The revenue bonds and notes of every issue shall be payable solely out of the revenues of the Authority, pertaining to the program relating to such bonds or notes including principal and interest on Authority loans and education loans payments by participating institutions for higher education banks, guarantors, insurance companies or others pursuant to letter of credit or purchase agreements, investment earnings from funds or accounts maintained pursuant to the bond resolution, insurance proceeds, loan funding deposits, proceeds of sales of education loans, proceeds of refunding bonds and fees, charges and other revenues of the Authority from such program but subject only to any agreements with the holders of particular revenue bonds or notes pledging any particular revenues and subject to any agreement with any participating institution for higher education.

(c) The revenue bonds or notes may be issued as serial bonds or notes or as term bonds or notes, or the Authority, in its discretion, may issue bonds or notes of both types.

The revenue bonds or notes shall be authorized by resolution of the members of the Authority and shall bear such date or dates and mature at such time or times or not exceeding thirty years from the date of issuance from their

respective dates, bear interest at such rate or rates, payable at such time or times, be in such denominations, be in such form either coupon or registered, carry such registration or conversion privileges, be executed with manual or facsimile signatures in such manner, be payable in lawful money of the United States at such place or places, and be subject to such terms of redemption, as such resolution or resolutions may provide. Such resolution or resolutions may delegate to the executive director, assistant executive director or any member of the Authority, or any combination of them, the power to determine any of the matters set forth in this section and the power to award the bonds to a purchaser or purchaser or purchasers at public sale or to negotiate a sale to a purchaser or purchasers provided in the latter case that the bonds are to be reoffered to the public. The revenue bonds or notes may be sold at public or private sale for such price or prices as the Authority shall determine. Pending preparation of the definitive bonds, the Authority may issue interim receipts or certificates which shall be exchanged for such definitive bonds.

(d) Any resolution or resolutions authorizing any revenue bonds or any issue of revenue bonds may contain provisions, which shall be a part of the contract with the holders of the revenue bonds to be authorized as to:

(1) pledging all or any part of the authority loans, education loans or revenues derived from the Authority loans and education loans with respect to which such bonds or notes are to be issued; (2) pledging all or any part of the revenues paid to the Authority by any guarantor or insurance company; (3) any revenue producing contract or contracts made by the Authority with any individual, partnership, corporation or association or other body, public or private, or any federally guaranteed security and moneys received therefrom whether such security is acquired by the Authority or a participating institution for higher education to secure the payment of the revenue bonds or notes or of any particular issue of revenue bonds or with, subject to such agreements with bondholders or noteholders as may then exist; (4) the fees and other amounts to be charged, and the sums to be raised in each year thereby, and the use, investment and disposition of such sums; (5) the establishment and setting aside of reserves or sinking funds, the setting aside of loan funding deposits, capitalized interest accounts, and cost of issuance accounts, and the regulation and disposition thereof; (6) limitations on the use of the education loans; (7) limitations on the purpose to which the proceeds of sale of any issue revenue bonds or notes then or thereafter to be issued may applied, including as authorized purposes, all costs and expenses necessary or incidental to the issuance of bonds, to the acquisition of or commitment to acquire any federally guaranteed security and pledging such proceeds to secure the payment of the revenue bonds, notes or any issue of the revenue bonds or notes; (8) limitations on the issuance of additional bonds or notes, the terms upon which additional bonds may be issued and secured and the terms on which additional bonds or notes may rank on a parity with, or be subordinate or superior to, other bonds or notes; (9) the refunding of outstanding bonds or notes; (10) the procedure, if any, by which the terms of any contract with bondholders may be amended (11) limitations on the amount of monies

derived from the educational program to be expended for operating, administrative or other expenses of the Authority; (12) defining the acts or omissions to act which shall constitute a default in the duties of the Authority to holders of its obligations and providing the rights and remedies of such holders in the event of default; (13) the duties, obligations and liabilities of any trustee or paying agent; and (14) providing for guarantees, pledges of endowments, letters of credit, property or other security for the benefit of the holder of such bonds or notes; and (15) any other matters relating to the bonds or notes which the Authority deems desirable.

(e) Neither the members of the Authority nor any person executing the revenue bonds or notes shall be liable personally on the revenue bonds or notes or be subject to any personal liability or accountability by reason of the issuance thereof.

(f) The Authority shall have power out of any funds available therefor to purchase its bonds or notes. The Authority may hold, pledge, cancel or resell such bonds or notes subject to and in accordance with agreements with bondholders.

Trust agreements as security for revenue bonds or notes; provisions of trust agreements.

Section 11. In the discretion of the Authority any revenue bonds or notes issued under the provisions of this chapter may be secured by a trust agreement by and between the Authority and a corporate trustee or trustees, which may be any trust company or bank having the powers of a trust company within the commonwealth. Such trust agreement or resolution providing for the issuance of such revenue bonds or notes may contain such provisions for protecting and enforcing the rights and remedies of the bondholders or noteholders as may be reasonable and proper and not in violation of law, including particularly such provisions as have hereinabove been specifically authorized to be included in any resolution or resolutions of the Authority authorizing revenue bonds or notes thereof. Any bank or trust company incorporated under the laws of the commonwealth which may act as depository of the proceeds of bonds or notes or of revenues or other monies may furnish such indemnity bonds or pledge such securities as may be required by the Authority. Any such trust agreement may set forth the rights and remedies of the bondholders or noteholders and of the trustee or trustees, and may restrict the individual right of action by bondholders or noteholders. In addition to the foregoing, any such trust agreement or resolution may contain such other provisions as the Authority may deem responsible and proper for the security of the bondholders or noteholders. All expenses incurred in carrying out the provisions of such trust agreement or resolution may be treated as a part of the cost of the education loan program.

Payment of bonds or notes; liability of commonwealth.

Section 12. Revenue bonds or notes issued under the provisions of this chapter shall not be deemed to constitute a debt or liability of the commonwealth or of any political subdivision thereof or a pledge of the faith and credit of the commonwealth or of any such political subdivision, but shall be payable solely from the funds herein provided therefor from revenues. All such revenue bonds or notes shall contain on the face thereof a statement to the effect neither the commonwealth nor the Authority shall be obligated to pay the same or the interest thereon except from revenues of the education loan program or programs or the portion thereof for which they are issued and that neither the faith and credit nor the taxing power of the commonwealth or of any political subdivision thereof is pledged to the payment of the principal of or the interest on such bonds or notes. The issuance of revenue bonds or notes under the provisions of this chapter shall not directly or indirectly or contingently obligate the commonwealth or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment.

Fees; contracts; pledge of revenues; sinking fund.

Section 13. The Authority shall fix, revise, charge and collect fees and is empowered to contract with any person, partnership, association or corporation, or other body, public or private, in respect thereof such that the fees and other amounts payable with respect to any program or programs of the Authority shall be sufficient at all times, (a) to pay or provide for the administrative costs and expenses of such program, (b) to pay the principal of, the premium, if any, and the interest on outstanding bonds or notes of the Authority issued in respect of such program to the extent that other revenues of the Authority pledged for the payment of the bonds or notes are insufficient to pay the bonds or notes as they become due and payable, (c) to create and maintain reserves which may but need not be required or provided for in the bond resolution relating to such bonds or notes of the Authority, and (d) to establish and maintain whatever education loan servicing, control, or audit procedures are deemed to be necessary or appropriate to the operations of the Authority.

The Authority may pledge as security for the issue of bonds or notes for a particular program the revenues, as described in paragraph (b) of section ten, from each such program and any other contract rights arising out of contracts entered into by the Authority or assigned to the Authority in connection with each such program. All such pledges shall be valid and binding from the time when the pledge is made; the revenues and contract rights so pledged by the Authority shall immediately be subject to the lien of such pledge without any physical act, delivery thereof or further act, and the lien of any such pledge shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Authority or any participating institution for higher education, irrespective of whether such parties have notice thereof. Neither the bond

resolution nor any financing statement, continuation statement or other instrument by which a pledge or security interest is created or perfected or by which the Authority's interest in such revenues or contract rights is assigned needs to be filed in any public records in order to perfect the security interest or lien thereof as against third parties except in the records of the Authority. The use and disposition of monies to the credit of such sinking or other similar fund shall be subject to the provisions of the resolution authorizing the issuance of such bonds or notes or of such trust agreement. Except as may otherwise be provided in such resolution, or such trust agreement, such sinking or other similar fund shall be a fund for all such revenue bonds or notes issued to finance an educational program or programs at one or more participating institutions for higher education, without distinction or priority of one over another; provided the Authority in any such resolution or trust agreement may provide that such sinking or other similar fund shall be the fund for a particular educational program or programs at a participating institution or institutions for higher education and for the revenue bonds or notes issued to finance a particular educational program or programs and may, additionally, permit and provide for the issuance of revenue bonds or notes having a subordinate lien in respect of the security herein authorized to other revenue bonds or notes of the Authority and, in such case, the Authority may create separate or other similar funds in respect of such subordinate lien bonds or notes.

Monies received; trust funds.

Section 14. All monies received pursuant to the Authority of this chapter, whether as proceeds from the sale of bonds or notes, in connection with any savings program or as revenues, shall be deemed to be trust funds to be held and applied solely as provided in this chapter. Any officer with whom, or any bank or trust company with which, such monies shall be deposited shall act as trustee of such monies and shall hold and apply the same for the purposes hereof, subject to such regulations as this chapter and the resolution authorizing the bonds or notes of any issue or the trust agreement securing such bonds or notes may provide.

State colleges and universities participation fund.

Section 14A. Notwithstanding any special or general law to the contrary, the board of trustees of each institution referred to in this section shall have the authority to enter into such contracts, subject to appropriation, as in their respective judgments are desirable in order to participate in any program established pursuant to this chapter. The Authority shall establish a state colleges and universities participation fund to which shall be credited all state appropriations and other monies made available to the fund. Moneys in the fund may be used solely for the purpose of supporting the participation in the education loan program established pursuant to this chapter of state colleges and institutions

under the control of the board of trustees of state colleges, the University of Lowell, the Southeastern Massachusetts University, the University of Massachusetts and the other institutions named in section three of chapter fifteen A. Monies therein may be held in custody by one or more banks or trust companies having a principal place of business in the commonwealth or may be invested in the manner set forth in section eighteen, as the Authority shall determine. Income earned on the fund may be used for any lawful purpose of the Authority. The Authority may pledge all or a portion of the monies or investments which are to be deposited in the fund, or any income therefrom, in furtherance of the purpose for which such fund is created. Such pledge shall be valid and binding as against all parties having claims of any kind against such fund from the time such pledge is made, irrespective of whether such parties have notice thereof.

Section 14B. The Authority shall establish, in such form as it deems appropriate, a college opportunity fund, hereinafter referred to as the fund, to which shall be credited all state appropriations and other monies made available to the fund and all income earned on amounts in the fund. Monies in the fund, together with earnings thereon, may be used solely for the purpose of developing, promoting, administering or supporting savings programs and tuition agreements established under this chapter. Monies therein may be held in custody by one or more banks or trust companies having a principal place of business in the commonwealth or may be invested in the manner set forth in section eighteen, as the Authority shall determine. The Authority may pledge all or a portion of the monies or investments which are to be deposited in the fund, or any income therefrom, in furtherance of the purpose for which such fund is created. Such pledge shall be valid and binding as against all parties having claims of any kind against such fund from the time such pledge is made, irrespective of whether such parties have notice thereof.

Holders of revenue bonds, notes, etc., and trustees; enforcement of rights; compelling performance of duties of authority.

Section 15. Any holder of revenue bonds, notes, bond, anticipation notes, other notes or other obligations of the Authority issued under the provisions of this chapter or any of the coupons appertaining thereto, and the trustee or trustees under any trust agreement, except to the extent the rights herein given may be restricted by any resolution authorizing the issuance of, or any such trust agreement securing, such bonds or other obligations, may, either at law or in equity, by suit, action, mandamus or other proceedings, protect and enforce any and all rights under the laws of the commonwealth or granted hereunder or under such resolution or trust agreement, and may enforce and compel the performance of all duties required by this chapter or by such resolution or trust agreement to be performed by the Authority or any officer, employee or agent thereof, including the appointment of a receiver to administer and operate the education loan program or programs, the revenues of which are pledged to the payment of

principal of, premium, if any, and interest on such bonds or notes, with full power to pay, and to provide for payment of, principal of, premium, if any, and interest on such bonds or notes, and with such powers, subject to the direction of the court, as are permitted by law and are accorded receivers, excluding any power to pledge additional revenues of the Authority to the payment of such principal, premium and interest.

Exercise of powers for benefit of commonwealth; tax exempt status.

Section 16. The exercise of the powers granted by this chapter shall be in all respects for the benefit of the people of the commonwealth, for the increase of their commerce, welfare and prosperity, and for the improvement of their health and living conditions, and as operation of an educational program and assistance to students to secure a better education by the Authority or its agent shall constitute the performance of an essential public function, neither the Authority nor its agent shall be required to pay any taxes or assessments upon or in respect to a project or any property acquired or used by the Authority or its agent under the provisions of this chapter or upon the income therefrom, and any bond issued under the provisions of this chapter, their transfer and the income therefrom, including any profit made on the sale thereof, shall at all times be free from taxation of every kind by the commonwealth and by the municipalities and other political subdivisions in the commonwealth.

Refunding of outstanding revenue bonds or notes; investment and reinvestment of proceeds.

Section 17. (a) The Authority is hereby authorized to provide for the issuance of revenue bonds or notes of the Authority for the purposes of refunding any revenue bonds or notes of the Authority then outstanding, including the payment of any redemption premium thereon and any interest accrued or to accrue to the earliest or any subsequent date of redemption, purchase or maturity of such revenue bonds or notes, and, if deemed advisable by the Authority, for the additional purpose of making an additional Authority loan.

(b) The proceeds of any such revenue bonds or notes issued for the purpose of refunding outstanding revenue bonds may, in the discretion of the Authority, be applied to the purchase or retirement at maturity or redemption of such outstanding revenue bonds either on their earliest or any subsequent redemption date or upon the purchase or at the maturity thereof and may, pending such application, be placed in escrow to be applied to such purchase or retirement at maturity or redemption on such date as may be determined by the Authority.

(c) Any such escrowed proceeds pending such use may be invested and reinvested in direct obligations of the United States, or in certificates of deposit or time deposits secured by direct obligations of the United States, maturing at

such time or times as shall be appropriate to assure the prompt payment, as to principal, interest and redemption premium, if any, of the outstanding revenue bonds to be so refunded. The interest, income and profits, if any, earned or realized on any such investment may also be applied to the payment of the outstanding revenue bonds to be so refunded. After the terms of the escrow have been fully satisfied and carried out, any balance of such proceeds and interest, income and profits, if any, earned or realized on the investments thereof may be returned to the Authority for use by it in any lawful manner.

(d) The portion of the proceeds of any such revenue bonds or notes issued for the additional purpose of making additional Authority loans may be invested and reinvested in direct obligations of the United States, or in certificates of deposit or time deposits secured by direct obligations of the United States, maturing not later than the time or times when such proceeds will be needed for the purpose of paying all or any part of such cost. The interest, income and profits, if any, earned or realized on such investment may be applied to the payment of all or any part of such cost or may be used by the Authority in any lawful manner.

(e) All such revenue bonds or notes shall be subject to the provisions of this chapter in the same manner and to the same extent as other revenue bonds issued pursuant to this chapter.

Investment of funds by Authority.

Section 13. Except as otherwise provided in paragraph (c) of section seventeen, or as provided in any bond resolution applicable to any bonds of the Authority, the Authority may invest any funds in (i) direct general obligations of the United States of America, (ii) obligations the payment of the principal and interest on which, by Act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the United States of America, (iii) bonds, debentures, participation certificates, notes or similar evidences of indebtedness payable in cash issued by any one or a combination of any of the following: Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Export-Import Banks of the United States, Farmers Home Administration, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association, and the Student Loan Marketing Association, (iv) public housing bonds issued by public agencies or municipalities are fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America, (v) direct and general obligations of any state or

political subdivision thereof or territory of the United States to the payment of the principal of an interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase such obligations are rated in one of the four highest rating categories by any nationally recognized rating agency, (vi) bank time deposits evidenced by certificates of deposit of or time deposits constituting direct obligations of banks which are members of the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, provided that, to the extent such time deposits exceed available federal deposit insurance, such time deposits are fully secured by obligations described in items (i) through (iv) above, which at all times have a market value (exclusive of accrued interest) at least equal to such bank time deposits so secured, including interest, or such deposits are due within one year and are issued by banks the senior long-term debt securities of which are rated in one of the four highest categories by any nationally recognized rating agency, (vii) repurchase agreements for obligations of the type specified in clauses (i) through (iv) above with federally insured banking institutions which have a capital and surplus aggregating at least one hundred million dollars, provided such repurchase agreements are fully collateralized and secured by such obligations having a market value, exclusive of accrued interest, at least equal to the purchase price of such repurchase agreements and which shall be delivered to a trustee, (viii) investment agreements with banks the senior long-term debt securities of which are rated in one of the four highest categories by any nationally recognized rating agency and which have a capital and surplus aggregating at least one hundred million dollars, and (ix) in any other manner specifically approved for the purpose of the particular investment by resolution of the Authority. Any such securities may be purchased at the offering or market price thereof at the time of such purchase. All such securities so purchased shall mature or be redeemable on a date or dates prior to the time when, in the judgment of the Authority, the funds so invested will be required for expenditure. The express judgment of the Authority as to the time when any funds shall be required for expenditure or be redeemable is final and conclusive.

Bonds as investment securities.

Section 19. Bonds issued by the Authority under the provisions of this chapter are hereby made securities in which all public officers and public bodies of the commonwealth and its political subdivisions, all insurance companies, trust companies, savings banks, co-operative banks, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. Such bonds are hereby made securities which may properly and legally be deposited with and received by any commonwealth or municipal officer or any agency or political subdivision of the commonwealth for any purpose for which the deposit of bonds or obligations of the commonwealth is now or may hereafter be authorized by law.

Report of Authority; audit.

Section 20. The Authority shall keep an accurate account of all its activities and of all its receipts and expenditures and shall annually make a report thereof as of the end of its fiscal year to its members, to the governor and to the state auditor, such reports to be in a form prescribed by the members, with the written approval of said auditor.

The members or said auditor may investigate the affairs of the Authority, may severally examine the properties and records of the Authority, and may prescribe methods of accounting and the rendering of periodical reports in relation to projects undertaken by the Authority. The Authority shall be subject to biennial audit by the state auditor.

Powers of participating higher education institutions; interest rates.

Section 21. Notwithstanding any other provision of law, any participating institution for higher education shall have the power to borrow money from the Authority, make education loans, enter into tuition agreements, participate in savings programs and take all other actions and do such things as are necessary or convenient to consummate the transactions contemplated under this chapter. It shall be lawful for the Authority to establish, charge, contract for and receive any amount or rate of interest or compensation with respect to Authority loans or education loans and it shall also be lawful, notwithstanding any other provision of law, to make Authority loans or education loans at a rate of interest which may, during the life of such loans, be varied or revised upon such terms or conditions as may be established by the Authority. It shall also be lawful for any institution of higher education to charge, contract for and receive any amount or rate of interest or compensation, including amounts or rates of interest which may be varied or revised upon such terms or conditions as may be established by the institution, with respect to education loans.

Employees; social security; security interests in revenues and receipts; priority.

Section 22. The Authority may take such action as it deems appropriate to enable its employees to come within the provisions and obtain the benefits of the Federal Social Security Act. If the employees of the Authority shall come within the provisions of said Social Security Act, their employment shall be included in the term "employment" as used in sections one to seven, inclusive, of chapter one hundred and fifty-one A.

Notwithstanding any provisions of chapter one hundred and six or of any other provision of law, the Authority by the filing of financing statements as provided in said chapter one hundred and six, may perfect security interests in

revenues and receipts of participating institutions for higher education, whether in the form of proceeds of accounts receivable or contract rights, interest and principal payable on education loans or otherwise, and in any rights to receive such revenues and receipts, and such perfected security interests shall take priority over any subsequently perfected security interests in such revenues, receipts or rights or in the accounts receivable, payments of interest or principal, goods, contract rights, or other rights or personal property giving rise to such revenues, receipts or rights provided that the financing statements filed by the Authority contain a reference to this section.

Civil actions; liability, losses, expenses; insurance; limitation of actions.

Section 22A. The Authority shall be liable on all claims made as a result of the activities, whether ministerial or discretionary, of any member, officer, or employee of the Authority acting as such, except for willful dishonesty or intentional violation of the law, in the same manner and to the same extent as a private person under like circumstances; provided, however, that the Authority shall not be liable to levy or execution on any real or personal property to satisfy judgment, for interest prior to judgment, for punitive damages or for any amount in excess of one hundred thousand dollars.

No person shall be liable to the commonwealth, to the Authority or to any other person as a result of his activities, whether ministerial or discretionary, as a member, officer or employee of the Authority except for willful dishonesty or intentional violation of the law; provided, however, that such person shall provide reasonable cooperation to the Authority in the defense of any claim. Failure of such person to provide reasonable cooperation shall cause him to be jointly liable with the Authority, to the extent that such failure prejudiced the defense of the action.

The Authority may indemnify or reimburse any person, or his personal representative, for losses or expenses, including legal fees and costs, arising from any claim, action, proceeding, award, compromise, settlement or judgment resulting from such person's activities, whether ministerial or discretionary, as a member, officer or employee of the Authority; provided that the defense of settlement thereof shall have been made by counsel approved by the Authority. The Authority may procure insurance for itself and for its members, officers and employees against liabilities, losses and expenses which may be incurred by virtue of this section or otherwise.

No civil action hereunder shall be brought more than three years after the date upon which the cause thereof accrued.

Powers granted supplemental and additional to other laws; supervision or regulation of powers.

Section 23. The provisions of this chapter shall be deemed to provide a complete, additional and alternative method for the doing of the things authorized thereby and shall be regarded as supplemental and additional to powers granted by other laws; provided the issuance of revenue bonds or notes and revenue refunding bonds or notes under the provisions of this chapter need not comply with the requirements of any other law applicable to the issuance of bonds or notes including, particularly, chapter one hundred and six. Except as otherwise expressly provided in this chapter, none of the powers granted to the Authority under the provisions of this chapter shall be subject to the supervision or regulation or require the approval or consent of any municipality or political subdivision or any department, division, commission, board, body, bureau, official or agency thereof or of the commonwealth.

New England Education Loan Marketing Corporation as separate entity.

Section 24. This chapter shall be independent of and in addition of the authority of the New England Education Loan Marketing Corporation established by section one hundred and ninety-one of chapter three hundred and fifty-one of the acts of nineteen hundred and eighty-one.

Construction of law.

Section 25. The chapter, being necessary for the welfare of the commonwealth and its inhabitants, shall be liberally construed to effect the purposes hereof.

Bankruptcy of borrower.

Section 26. The obligations of a borrower under the provisions of this chapter shall not be subject to discharge as a result of bankruptcy proceedings.

Section 26A. (Repealed by Section 11 of Chapter 495 of the Act of 1993)

Rights and Properties of Authority upon dissolution, liquidation or other termination.

Section 27. Upon dissolution, liquidation or other termination of the Authority, all rights and properties of the Authority shall pass to and be vested in the commonwealth, subject to the rights of lienholders and other creditors. In addition, any net earnings of the Authority, beyond that necessary for retirement of any indebtedness or to implement the public purpose or purposes of program

of the commonwealth, shall not inure to the benefit of any person other than the commonwealth.

Severability.

Section 28. The provisions of this act are severable, and if any of its provisions shall be held unconstitutional by any court of competent jurisdiction, the decision of such court shall not affect or impair any of the remaining provisions.

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CHAPTER 15C

Massachusetts College Student Loan Authority

(MASSACHUSETTS EDUCATION LOAN AUTHORITY)

Special Note—

Acts 1994, ch. 663, revised statutory provisions relative to the Massachusetts College Student Loan Authority, including an apparent change of name to the Massachusetts Education Loan Authority. Said name has been inserted in brackets, supra, to accurately reflect this name change.

Sec.

1. Policy and purpose.
2. Title.
3. Definitions.
4. Membership of the Massachusetts College Student Loan Authority.
5. Powers of the Massachusetts College Student Loan Authority.
6. Expenses shall be payable solely from funds provided under authority of chapter.
7. Authority to establish certain guidelines.
8. Loan funding deposits to be promptly returned.
9. Authority may issue negotiable notes.
10. Authority may issue revenue bonds.
11. Bonds and notes may be secured by trust agreement.
12. Bonds and notes shall not constitute a debt or liability of the Commonwealth.
13. Authority may fix, revise, charge and collect fees.
14. Monies received under chapter shall be deemed trust funds.
- 14A. Certain institutions empowered to enter into contracts in order to participate in education loan programs; state colleges and universities participation fund established.
15. Enforcement of trust agreements by holders of bonds and notes.
16. Authority to be tax exempt.
17. Issuance of bonds and notes for refunding outstanding bonds and notes.
18. Authorized investments of funds.
19. Public officers, public bodies, etc., may legally invest in bonds issued by authority.
20. Accounting by authority.

21. Institutions of higher education empowered to consummate loans interest rates.
22. Authority to bring its employees within provisions of the Federal Social Security Act; security interests in revenues and receipts of participating institutions may be perfected.
- 22A. Liability of authority resulting from activities of members, officers or employees; liability of members, officers and employees; indemnification; limitation of actions.
23. Provisions of chapter shall be supplemental and additional to powers granted by other laws.
24. Chapter shall be independent of the New England Education Loan Marketing Corporation.
25. Chapter shall be liberally construed.
26. Obligations of borrowers shall not be subject to discharge in bankruptcy.
27. Rights and properties of authority to vest in Commonwealth upon dissolution, liquidation or other termination of authority.
28. Severability of provisions.

VERALEX: Cases and annotations referred to herein can be further researched through the VERALEX electronic retrieval system's two services, Auto-cite[®] and SHOWME[®]. Use Auto-cite to check citations for form, parallel references, prior and later history, and annotation references. Use SHOWME to display the full text of cases and annotations.

§ 1. Policy and Purpose.

It is declared that for the benefit of the people of the commonwealth, the increase of their commerce, welfare and prosperity and the improvement of their health and living conditions, it is essential that this and future generations of youth be given the fullest opportunity to learn and to develop their intellectual capacity and skills. It is recognized that costs connected with collegiate education are increasingly burdensome and that it is essential that students attending educational institutions for higher education in the commonwealth and parents and others responsible for paying the costs thereof be provided with lower-cost financial assistance in order to help such students to achieve higher levels of learning and development of their intellectual capacity and skills. It is also recognized that educational institutions for higher education within the commonwealth should be provided with appropriate additional means to assist

qualified students financially to achieve the required levels of learning and development of their intellectual capacity and skills. It is the purpose of this chapter and policy of the commonwealth to provide a measure of financial assistance to students in the commonwealth, their parents and others responsible for the costs of their education and an alternative method to enable institutions for higher education in the commonwealth to assist qualified students to attend such institutions, all to the public benefit and good, to the extent and manner provided herein. (1981, 803.)

Special Note—

Acts 1982, ch. 256, §§ 1, 3-12, entitled "An act relative to the New England education loan marketing corporation", which was approved with emergency provisions, July 20, 1982, by § 17, effective July 1, 1981, provide as follows:

Section 1. It is hereby found and declared that programs of guaranteed and insured loans to or for the benefit of students which rely upon the participation of private lenders have provided and continue to provide substantial assistance to the citizens of the commonwealth and allow in existing markets to pursue programs of postsecondary education beneficial to themselves and to the commonwealth generally. It is hereby further found and declared that the success of guaranteed and insured loan programs for students has been of significant benefit to the banking community and to the economy of the commonwealth. In order to assure the continued viability of such guaranteed and insured loan programs for students, it is necessary and desirable to provide an efficient, stable secondary market to which such loans may be sold, transferred or pledged in exchange for funds with which the original lender can continue or increase participation in the program. It is hereby found and declared that a secondary market for guaranteed and insured loans to or for the benefit of students is in the best interests of the banking community, the commonwealth and, most particularly, students in that necessary and reduced financial transactions will be made with the assistance of local institutions and firms. Lenders will be assured of access to a secondary market upon terms and conditions reflective of the traditional and evolving banking practices of the region and students and their families will receive better and more efficient servicing of their loans by an entity responsive to the educational and economic climate of the region.

Section 2. The following words and phrases, as used in this act, shall, unless the context otherwise requires, have the following meanings:

"Board", the board of directors of the Corporation.

"Code", the Internal Revenue Code of 1954.

"Corporation", The New England Education Loan Marketing Corporation created by section four of this act.

"Former act", chapter fifteen B of the General Laws, inserted by section one hundred and thirty-one of chapter three hundred and fifty-one of the acts of nineteen hundred and eighty-one.

"Guaranty agency", any agency of any state, or any nonprofit private institution or organization, which has entered into an agreement with the Secretary of Education pursuant to Section 428 of the Higher Education Act.

"Higher education act", the Higher Education Act of 1965 and the regulations promulgated thereunder, or any successor provisions of comparable import.

"Initial board", the board of directors described in paragraph (b) of section four of the former act as constituted upon the date of approval of this act.

"Secretary of education", the Secretary of the United States Department of

Education, or any predecessor or successor officer, board, body, commission or agency under the Higher Education Act.

Section 4. There is hereby created a private, nonprofit corporation to be known as The New England Education Loan Marketing Corporation. The corporation is established and shall operate exclusively for the purpose of acquiring student loan assets incurred under the Higher Education Act and shall derive any income, after payment of expenses, debt service and the creation of reserves for the same, to the purchase of additional student loan notes, all within the meaning of Section 103(c) of the Code; provided, however, that the corporation shall have authority to operate for such other purposes, and shall have authority to devote its income as aforesaid for such other purposes, as said Section 103(c), or a successor provision of comparable import, may allow, as said Section 103(c) of such successor provision may be amended from time to time, to the extent that such purposes do not preclude the corporation from being an organization described in Section 501(c)(3) of the Code or a successor provision of comparable import. The corporation shall not engage in any activities which would preclude it from being an organization described in Section 501(c)(3) of the Code or a successor provision of comparable import. For the purposes of Section 11411(a)(7) of the Higher Education Act, the corporation shall be deemed to be an agency of the Commonwealth functioning as a secondary market.

Section 5. The corporation shall be governed by a board of directors, which shall exercise and be responsible for the management of all of the affairs of the corporation, including the making, amending and altering of bylaws, and the powers of which shall constitute the members of the corporation. The board may delegate to any committee of the board or to any officer of the corporation any action which the board is empowered to take. The board shall consist of not less than fifteen nor more than twenty-one members, one-third of whom shall be representative of leading institutions, one-third of whom shall be representative of educational institutions and one-third of whom shall be representative of the general public. The corporation shall be governed until July first, nineteen hundred and eighty-seven by the initial board. Members of the initial board shall be eligible for reappointment to successive terms on the board provided that after July first, nineteen hundred and eighty-seven no more than three members of the board may also concurrently be members of the board of directors of the Massachusetts Higher Education Assistance Corporation. After the expiration of the term of the initial board, members of the board shall serve for such terms as may be established by bylaw. Members of the board shall be eligible for reappointment to successive terms. Members of the board shall serve without compensation but shall be reimbursed for all expenses reasonably incurred by them in the performance of their duties. The board, including the initial board, shall elect its own successors and fill all vacancies, provided that if at any time there are no directors, a court of competent jurisdiction may be petitioned to appoint successor directors. After the effective date of this act, the initial board may vote or consent and validate the making, including organizational details, of any agreement in the future on or prior to the date of such vote and thereafter any such act shall be deemed to be a valid and binding act of the corporation as of the date of any such act.

Section 6. The corporation shall be subject to, and shall have the powers and privileges conferred by the provisions of, chapter one hundred and eighty of the General Laws and section one hundred and fifty-nine of the General Laws, except insofar as said provisions are inconsistent with or otherwise limited or restricted by the provisions of this act. The corporation may exercise the foregoing powers to perform all actions necessary or convenient to effect its purposes. The corporation shall have no stock. Without limiting the generality of the foregoing, the corporation is expressly authorized to incur liabilities to issue bonds, notes and other evidence of indebtedness to acquire student loan notes, without regard to the place of origination of any such

notes or to the location or residency of the maker, holder, purchaser or assignee of any such notes or to the location of any educational institution, incurred under the Higher Education Act, to pay expenses and other service and create reserves for the same, all while the winding up of Section 301(c) of the Code; to borrow and otherwise create and grant liens on and security interests in its properties and assets, whether real, personal or mixed, to pledge, assign and otherwise create and grant liens on and security interests in its revenues; and to enter into contracts and agreements and execute instruments with any person or persons or public or private entity or entities, including without limitation the Secretary of Education and any guaranty agency, relative to the guaranty, insurance, purchase, sale, servicing, proceeding, pledging or assignment of any such student loan note incurred under the Higher Education Act or otherwise in furtherance of its purposes. The corporation may purchase, receive, take or otherwise acquire, own, hold, sell, lend, exchange, transfer or otherwise dispose of, pledge, use and otherwise deal in and with its own bonds, notes and other evidences of indebtedness.

Section 7. Notwithstanding the provisions of chapter one hundred and six of the General Laws, any pledge of, or grant of a lien on or security interest in, the revenues or other properties of the corporation in a resolution authorizing the issuance of bonds, notes or other evidences of indebtedness or in a trust agreement securing the same shall be void and binding from the time when such pledge or grant shall be made, such revenues or other properties shall immediately be subject to the lien of any such pledge or grant without any physical delivery thereof or further act and any such lien shall be valid and binding against all parties having claim of any kind, in tort, contract or otherwise, against the corporation, irrespective of whether such parties have notice thereof. Neither any such resolution or trust agreement nor any financing statement, continuation statement or other instrument by which a pledge or security interest may be created or by which the interest of the corporation in any revenues or other properties may be assigned need be filed in any public records in order to perfect the security interest or lien thereof as against third parties.

Section 8. Bonds, notes and other evidences of indebtedness issued by the corporation are hereby made securities in which all insurance companies, trust companies, savings banks, co-operative banks, credit unions, banking associations, investment companies, other financial institutions, executors, administrators, trustees and other beneficiaries may properly and legally invest funds, including capital in their control or belonging to them.

Section 9. The corporation shall not be required to pay any taxes upon its property or income or be subject to the provisions of chapter sixtythree of the General Laws or any other laws imposed by its property or income. Bonds, notes and other evidences of indebtedness issued by the corporation, their transfer and the income therefrom, including any profit made on the sale thereof, shall at all times be free from taxation within the commonwealth.

Section 10. The provisions of chapter one hundred and ten A of the General Laws shall not apply to securities issued by the corporation.

Section 11. The corporation shall establish and maintain proper accounting and related records and shall prepare and issue a written report annually, a copy of which shall be provided to the governor and to the clerk of the house and senate within sixty days after the end of the fiscal year of the corporation. The corporation shall not be required to file reports with the attorney general or the state secretary.

Section 12. The corporation shall not voluntarily dissolve, or otherwise terminate its existence, so long as any of its debt obligations shall be outstanding. Upon dissolution, liquidation or other termination of the corporation, all rights and properties of the corporation shall pass to and be vested in the commonwealth, subject to the rights of holders and other creditors, unless the by-laws provide that they may be distributed among one or more organizations described in Section 301(c)(7) of the Code or a successor provision of comparable import.

Total Client-Service Library® References—

ISA Ann Jar 24, Colleges and Universities § 34.5 (Grants and loans to students).

§ 2. Title.

This chapter may be referred to and cited as the "Massachusetts Education Loan Authority Act." (1981, 80J; 1984, 46J, § 2.)

Editorial Note—

The 1981 amendment deleted "Massachusetts College Student Loan Authority Act" and inserted in place thereof "Massachusetts Education Loan Authority Act".

Total Client-Service Library® References—

ISA Ann Jar 24, Colleges and Universities § 34.5 (Grants and loans to students).

§ 3. Definitions.

In this chapter, the following words and terms shall, unless the context otherwise requires, have the following meanings:—

(a) "Authority", the College Student Loan Authority established by section four.

(b) "Authority loans", loans made by the authority to other parties from the proceeds of bonds for the purpose of funding education loans.

(c) "Bonds" or "revenue bonds", revenue bonds or notes of the authority issued under the provisions of this chapter, including revenue refunding bonds or notes.

(d) "Bond resolution", the resolution or resolutions of the Authority and the trust agreement, if any, authorizing the issuance of and providing for the terms and conditions applicable to bonds.

(e) "Borrower", a student or any person who has received or agreed to pay an education loan on behalf of a student.

(f) "Default insurance", insurance, letters of credit, standby credit agreements, take-out commitments, agreements or other forms of credit insuring against default or guaranteeing timely payment with respect to education loans, Authority loans or bonds.

(g) "Default reserve fund", a fund established pursuant to a bond resolution for the purpose of securing education loans, authority loans or bonds.

(h) "Education loan", a loan to a borrower to finance or refinance a student's attendance at an institution for higher education made by or on behalf of such an institution or by a financial institution which loan is made from or in anticipation of an Authority loan or

purchased by the Authority or such a loan made directly by the Authority.

(j) "Loan funding deposit", monies or other property deposited by or on behalf of an institution for higher education with the Authority, guarantor or a trustee for the purpose of (a) providing security for bonds, (b) funding a default reserve fund, (c) acquiring default insurance, or (d) defraying costs of the Authority, such monies or properties to be in such amounts as deemed necessary by the Authority or guarantor as a condition for such institution's participation in the Authority's programs.

(k) "Institution for higher education", a nonprofit degree-granting educational institution within the commonwealth, whether public or private, authorized by law to provide a program of education beyond the high school level.

(l) "Participating institution for higher education", an institution for higher education which, pursuant to the provisions of this chapter, undertakes the financing directly or indirectly of education loans as provided in this chapter.

(m) "Parent", any parent, legal guardian or sponsor of a student at an institution for higher education.

(n) "Education loan series portfolio", all education loans made by or on behalf of a specific institution for higher education or participations therein by the Authority and one or more financial institutions which are funded in whole or in part from the proceeds of an authority loan to such institution out of the proceeds of a related specific bond issue through the Authority. (1981, 803; 1982, 356, § 13; 1984, 463, §§ 3, 4.)

Editorial Note—

The 1982 amendment rewrote the section, redefining the following terms: "Guarantor", "Default insurance", "Education loan", "Loan funding deposit", "Institution for higher education", and "Education loan series portfolio".

The 1984 amendment made the following changes: (1) deleted, in paragraph (k), "loans of the authority" and inserted in place thereof "loans made by the authority to other parties"; and (2), in paragraph (k) added ", or such a loan made directly by the Authority".

§ 4. Membership of the Massachusetts Education Loan Authority.

(a) There is hereby established a body politic and corporate to be known as the "Massachusetts Education Loan Authority", herein called the Authority. Said Authority is constituted a public instrumentality and the exercise by the Authority of the powers granted

by this chapter shall be deemed and held to be the performance of an essential public function. Said Authority shall consist of seven members who shall be residents of the commonwealth, not more than four of whom shall be members of the same political party. Six members shall be appointed by the governor. At least three of the members shall be trustees, directors, officers or employees of institutions for higher education, at least three shall be persons having a favorable reputation for skill, knowledge and experience in the field of state and municipal finance, either as a partner, officer or employee of an investment banking firm which originates and purchases state and municipal securities, or as an officer or employee of an insurance company, bank or mutual fund whose duties relate to the purchase of state and municipal securities as an investment and to the management and control of a state and municipal securities portfolio. One member of the Authority shall be the secretary for economic affairs ex officio or the designee of the secretary. The members of the Authority first appointed shall serve for terms expiring on July first in the years nineteen hundred and eighty-three, nineteen hundred and eighty-four, nineteen hundred and eighty-five, nineteen hundred and eighty-six, nineteen hundred and eighty-seven, and nineteen hundred and eighty-eight, respectively, the term of each such member to be designated by the governor. The term of the secretary of economic affairs shall be coextensive with his tenure in that office. Upon the expiration of the term of any originally appointed member his successor shall be appointed for a term of six years. The governor shall fill any vacancy for the remainder of the unexpired term. Any member of the Authority may be removed by the governor for misfeasance, malfeasance or wilful neglect of duty or other cause after notice and a public hearing unless such notice and hearing shall be expressly waived in writing. Members of the Authority may serve for successive terms of office.

(b) The Authority shall annually elect one of its members as chairman and one as vice-chairman. It may appoint an executive director and assistant executive director, who shall not be members of the Authority, who shall serve at the pleasure of the Authority. They shall receive such compensation as shall be fixed by the Authority.

(c) The executive director or assistant executive director or other person designated by resolution of the Authority shall keep a record of the proceedings of the Authority and shall be custodian of all books, documents and papers filed with the Authority, the minute book or journal of the Authority, and its official seal. Said executive director or assistant executive director or other person may cause copies to be made of all minutes and other records and documents of

the Authority and may give certificates under the official seal of the Authority to the effect that such copies are true copies, and all persons dealing with the Authority may rely upon such certificates.

(d) Four members of the Authority shall constitute a quorum. The affirmative vote of a majority of all the members of the Authority shall be necessary for any action taken by the Authority. A vacancy in the membership of the Authority shall not impair the right of a quorum to exercise all the rights and perform all the duties of the Authority. Any action taken by the Authority under the provisions of this chapter may be authorized by resolution at any regular or special meeting, and each such resolution shall take effect immediately and need not be published or posted.

(e) Before the issuance of any bonds or notes under the provisions of this chapter, the chairman, vice-chairman, executive director and assistant executive director and any other member of the Authority authorized by resolution of the Authority to handle funds or sign checks of the Authority shall execute a surety bond in the penal sum of fifty thousand dollars, or in lieu thereof the chairman shall obtain a blanket position bond covering the executive director and every member and other employee of the Authority in the penal sum of fifty thousand dollars. Each such bond shall be conditioned upon the faithful performance of the duties of the principal or the members, executive director and other employees, as the case may be, shall be executed by a surety company authorized to transact business in the commonwealth as surety, shall be approved by the attorney general and shall be filed in the office of the state secretary. The cost of each such bond shall be paid by the Authority.

(f) The members of the Authority shall receive no compensation for the performance of their duties hereunder but each such member shall be paid his necessary expenses incurred while engaged in the performance of such duties.

(g) Any member, officer, agent or employee of the Authority who, directly or indirectly, has any financial interest in any organization participating in any program of the Authority shall be punished by a fine of not less than fifty dollars nor more than one thousand dollars, or by imprisonment for not more than one month, or both.

Notwithstanding the provisions of paragraph (g) or the provisions of any other law to the contrary, it shall not be or constitute a conflict of interest or violation of the provisions of said paragraph (g) or the provisions of any other law for a trustee, director, officer or employee of a participating institution for higher education or for a person having the required favorable reputation for skill, knowledge and experience in state and municipal finance to serve as a member

of the Authority; provided, in each case to which provisions are applicable, such trustee, director, officer or employee of such participating institution for higher education abstains from discussion, deliberation, action and vote by the Authority in specific respect to any undertaking pursuant to this chapter in which such participating institution for higher education participates in an education loan, or otherwise has an interest, or any such person having the required favorable reputation for skill, knowledge and experience in state and municipal finance abstains from discussion, deliberation, action and vote by the Authority in specific respect to any sale, purchase or ownership of bonds or education loans of the Authority in which the investment banking firm or insurance company or bank of which such person is a partner, officer or employee has a past, current or future interest.

(h) Notwithstanding any provision of chapter two hundred and sixty-eight A, a present or former employee of the commonwealth, or of any political subdivision thereof, or of any state, county or municipal agency as defined in said chapter two hundred and sixty-eight A may be a borrower of an education loan. Nor shall participating institutions for higher education be subject to the provisions of section ninety-six of chapter one hundred and forty. (1981, 803; 1982, 356, § 14; 1984, 189, § 16; 1984, 463, §§ 5, 6.)

Editorial Note—

The 1982 amendment added paragraph (h), allowing certain public employees to be borrowers of an education loan.

The first 1984 amendment was corrective in nature, deleting, in the first sentence of paragraph (h), "or" as it was repeated after the second time it appears in said paragraph.

The second 1984 amendment, in paragraph (h), deleted "Massachusetts College Student Loan Authority" and inserted in place thereof "Massachusetts Education Loan Authority", and in the sixth sentence of said paragraph, added ", or the designee of the secretary".

FORMS

Form 1—Notice of appointment as member of Massachusetts Education Loan Authority

Form 2—Acceptance of appointment as member of Massachusetts Education Loan Authority

Form 3—Notice and call of meeting of Massachusetts Education Loan Authority

FORM 1

Notice of Appointment as Member of Massachusetts Education Loan Authority

To: _____ (name of appointee)

_____ (address), Commonwealth of Massachusetts

This is to advise you that by virtue of the authority vested in me,

_____, at Governor of the Commonwealth of Massachusetts by Chapter 15C of Section 4 of the Annotated Laws of Massachusetts, you have this day been appointed as a member of the Massachusetts Education Loan Authority. This appointment shall be for a term of ____ years, commencing ____ 19____, with all the powers and duties incident to such office. You will receive no compensation for your services as a member but shall be paid all necessary expenses incurred while engaged in the performance of your duties.

This appointment is subject to your acceptance and subject to the laws of the Commonwealth of Massachusetts and the rules and regulations of the Massachusetts Education Loan Authority.

Dated ____ 19____

[Signature of Appointing Authority]

FORM 2

Acceptance of Appointment as Member of Massachusetts Education Loan Authority

To: _____ [appointing officer]

I, _____ [name of appointee], of _____ [address], City of _____ County of _____ Commonwealth of Massachusetts, having been tendered appointment as a member of the Massachusetts Education Loan Authority on ____ 19____, hereby accept such appointment and agree to discharge my duties as a member of the Massachusetts Education Loan Authority to the best of my ability and to abide by the laws of the Commonwealth of Massachusetts and the rules and regulations of the Massachusetts Education Loan Authority.

Dated ____ 19____

[Signature]

[Acknowledgment]

FORM 3

Notice and Call of Meeting of Massachusetts Education Loan Authority

City of _____

County of _____

Commonwealth of Massachusetts

NOTICE AND CALL OF MEETING OF MASSACHUSETTS EDUCATION LOAN AUTHORITY

Notice is hereby given that the Massachusetts Education Loan Authority will meet at the date, time, and place set out as follows:

Date of meeting: _____

Time of meeting: _____

Place of meeting, _____

The tentative agenda for the meeting is as follows: _____ [enumerated]

This order is given pursuant to the provisions of Section 4 of Chapter 15C of the Annotated Laws of Massachusetts.

Dated _____ 19____

[Signature]

§ 5. Powers of the Massachusetts Education Loan Authority.

The purpose of the Authority shall be to assist borrowers and institutions for higher education in the financing and refinancing of the costs of education and for this purpose the Authority is authorized and empowered:

(a) to adopt by-laws for the regulation of its affairs and the conduct of its business;

(b) to adopt an official seal and alter the same at pleasure;

(c) to maintain an office at such place or places in the commonwealth as it may designate;

(d) to sue and be sued in its own name, plead and be impleaded;

(e) to determine criteria and guidelines encompassing the type of and qualifications for education loan financing programs. The criteria and guidelines established by the Authority for its education loan financing programs shall include such eligibility standards for borrowers as the Authority shall determine are necessary or desirable in order to effectuate the purposes of the chapter, including the following: (i) each student shall have a certificate of admission or enrollment at a participating institution for higher education, (ii) each student or his or her parents shall satisfy such financial qualifications as the Authority shall establish to effectuate the purposes of the chapter, and (iii) each student and his parents shall submit such information as may be required by the Authority to his or her institution of higher education;

(f) to establish specific criteria governing the eligibility of institutions for higher education to participate in its programs, and for the making of Authority loans and education loans, provisions for default, the establishment of default reserve funds, the purchase of default insurance, the provision by such institutions of prudent debt service reserves, and the furnishing by participating institutions for higher education and others of such additional guarantees of the education loans, Authority loans or the bonds as the Authority shall determine, all of such criteria to be established to assure the marketability of the bonds and the adequacy of the security for the bonds.

The criteria governing the eligibility of institutions for higher learning shall include limitations upon the principal amounts and the terms of education loans, criteria regarding the qualifications and characteristics of borrowers and procedures for allocating authority loans among institutions of higher education eligible for its program in order to effectuate the purposes of the chapter;

(c) to establish rules and regulations with respect to Authority loans, education loans and education loan series portfolios;

(h) to receive and accept from any source loans, contributions or grants for or in aid of an Authority education loan financing program or any portion thereof and, when desirable, to use such funds, property or labor only for the purposes for which it was loaned, contributed or granted;

(i) to contract with guarantors, financial institutions or other qualified loan origination and servicing organizations, which shall assist in prequalifying borrowers for education loans and which shall service and administer each education loan. The Authority may require that each borrower be charged a fee to defray the costs of origination, servicing and administration of education loans. The amount and method of collection of such fee shall be determined by the Authority. Participating institutions for higher education may perform these acts if authorized by the Authority;

(j) to contract with a guarantor to provide security for the payment of education loans through the issuance of default insurance or letters of credit or other credit arrangements or to provide a guarantee of payment covering all or a portion of each education loan made by or on behalf of the Authority or by or on behalf of an institution for higher education from the proceeds of an Authority loan.

(k) to employ attorneys, accountants, consultants, financial experts, loan processors, banks, managers, and such other employees and agents as may be necessary in its judgment, and to fix their compensation;

(l) to make direct education loans or to purchase education loans from or to make Authority loans to participating institutions for higher education or financial institutions and require that the proceeds of such Authority loans be used for making education loans, funding reserves, providing for capitalized interest and paying other costs and fees involved in making education loan or issuing bonds.

(m) to sell education loans or Authority loans to such buyers on such terms and in such amounts as the Authority may determine.

(n) to charge and equitably apportion among participating institu-

tions for higher education its administrative costs and expenses incurred in the exercise of the powers and duties granted by this chapter;

(a) to borrow working capital funds and other funds as may be necessary for start-up and continuing operations, as long as such funds are borrowed in the name of the Authority only. Such borrowings shall be limited obligations of the character described in section twelve and shall be payable solely from revenues of the Authority or the proceeds of bonds pledged for that purpose;

(c) notwithstanding any other provisions in this chapter, to commingle and pledge as security for one or more series or issues of bonds, only with the consent of all of the institutions of higher education which are participating in such series or issues, (i) the education loan series portfolios and some or all future education loan series portfolios of such institutions of higher education; and (b) the loan funding deposits of such institutions. Bonds may be issued in series under one or more resolutions or trust agreements in the discretion of the Authority.

(p) to examine records and financial reports of participating institutions for higher education, and to examine records and financial reports of any person, organization or institution retained under clauses (f), (j) or (k) of this section;

(q) to do all things necessary or convenient to carry out the purposes of this chapter.

In carrying out the purposes of this chapter, the Authority may issue bonds the proceeds of which are loaned to two or more participating institutions for higher education or for any combination of participating institutions for higher education and, thereupon all other provisions of this chapter shall apply to and for the benefit of the Authority and the participants in such joint project or projects. Any such joint participation requires the express approval of all participants.

The Authority shall require that Authority loans be used solely for the purpose of education loans and in an amount not to exceed the total cost of attendance, as defined by the Authority, less other forms of student assistance. The Authority shall require that institutions for higher education shall insist that each borrower under an education loan shall use the proceeds solely for educational purposes and purposes reasonably related thereto and that each such borrower shall so certify.

Whenever refunding bonds are issued to refund bonds the proceeds of which were used to make Authority loans, the Authority may

reduce or increase the amount it is owed by the institution for higher education which had received Authority loans from the proceeds of the refunded bonds. Such institutions of higher education may reduce or increase the amount of interest being paid on education loans which the institution has made pursuant to the Authority loans from the proceeds of the refunded bonds. (1981, 803; 1982, 356, §§ 15, 16; 1984, 463, §§ 6A, 7.)

Editorial Note—

The 1982 amendment made the following changes: (1) reworded paragraph (1), making a minor wording change and further authorizing contracts for the issuance of letters of credit or other credit arrangements; and (2) deleted former paragraph (1) and inserted new paragraphs (1) and (1A), further authorizing the authority to purchase and sell education loans.

The 1984 amendment made the following changes: (1) added "to make direct education loans or" to the beginning of paragraph (1), and (2) deleted the following from the end of the first sentence of paragraph (1): "provided that education loan sales portions and other security and assets not sold in any form or funds pledged for any series of bonds or lines of bonds shall be held for the sole benefit of such series of loans separate and apart from education loan sales portions and other security and assets pledged for any other series or lines of bonds of the Authority".

Total Client Service Library References—

15A Am Jur 2d, Colleges and Universities § 34.5 (Grants and loans to students).

FORMS

Resolution of Massachusetts Education Loan Authority Adopting Policies, Rules, and Regulations

Be it resolved by the Massachusetts Education Loan Authority of the Commonwealth of Massachusetts that the following rules and regulations shall govern the _____ (administration of the Massachusetts Education Loan Authority or as the case may be) _____ (set forth policies and/or rules and/or regulations).

These policies, rules and regulations shall take effect on the date of their adoption and shall supersede all other rules and regulations not in accordance herewith.

Adopted on _____, 19____, by the Massachusetts Education Loan Authority.

(Authorized Signature)

§ 6. Expenses Shall Be Payable Solely from Funds Provided Under Authority of Chapter.

All expenses incurred in carrying out the provisions of this chapter shall be payable solely from funds provided under the authority of this chapter and no liability or obligations shall be incurred by the Authority hereunder beyond the extent to which monies shall have been provided under the provisions of this chapter. (1981, 803.)

senior long-term debt securities of which are rated in one of the four highest categories by any nationally recognized rating agency and which have a capital and surplus aggregating at least one hundred million dollars. Any such securities may be purchased at the offering or market price thereof at the time of such purchase. All such securities so purchased shall mature or be redeemable on a date or dates prior to the time when, in the judgment of the Authority, the funds so invested will be required for expenditure. The express judgment of the Authority as to the time when any funds shall be required for expenditure or be redeemable is final and conclusive. (1981, 803; 1982, 356, § 23; 1984, 463, § 9.)

Editorial Note—

The 1992 amendment inserted, after "seventeen" in the first sentence, "or as provided in any bond resolution applicable to any bonds of the Authority".

The 1994 amendment revised the first sentence of the section.

§ 19. Public Officers, Public Bodies, etc., May Legally Invest in Bonds Issued by Authority.

Bonds issued by the Authority under the provisions of this chapter are hereby made securities in which all public officers and public bodies of the commonwealth and its political subdivisions, all insurance companies, trust companies, savings banks, co-operative banks, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. Such bonds are hereby made securities which may properly and legally be deposited with and received by any commonwealth or municipal officer or any agency or political subdivision of the commonwealth for any purpose for which the deposit of bonds or obligations of the commonwealth is now or may hereafter be authorized by law. (1981, 803.)

§ 20. Accounting by Authority.

The Authority shall keep an accurate account of all its activities and of all its receipts and expenditures and shall annually make a report thereof as of the end of its fiscal year to its members, to the governor and to the state auditor, such reports to be in a form prescribed by the members, with the written approval of said auditor. The members or said auditor may investigate the affairs of the Authority, may severally examine the properties and records of the Authority, and may prescribe methods of accounting and the render-

ing of periodical reports in relation to projects undertaken by the Authority. (1981, 803; 1982, 356, § 24.)

Editorial Note—

The 1982 amendment corrects the first sentence, replacing the requirement that an annual report be made in the month of January with the requirement that the report be made "at the end of the fiscal year", and also deriving a second sentence dealing with the contents of the report.

§ 21. Institutions of Higher Education Empowered to Consume Loans; Interest Rates.

Notwithstanding any other provision of law, any participating institution for higher education shall have the power to borrow money from the Authority, make education loans and take all other actions and do such things as are necessary or convenient to consummate the transactions contemplated under this chapter. It shall be lawful for the Authority to establish, charge, contract for and receive any amount or rate of interest or compensation with respect to authority loans or education loans and it shall also be lawful, notwithstanding any other provision of law, to make authority loans or education loans at a rate of interest which may, during the life of such loans, be varied or revised upon such terms or conditions as may be established by the Authority. It shall also be lawful for any institution of higher education to charge, contract for and receive any amount or rate of interest or compensation, including amounts or rates of interest which may be varied or revised upon such terms or conditions as may be established by the institution, with respect to education loans. (1981, 803.)

§ 22. Authority To Bring Its Employees Within Provisions of the Federal Social Security Act; Security Interests in Revenues and Receipts of Participating Institutions May be Perfected.

The Authority may take such action as it deems appropriate to enable its employees to come within the provisions and obtain the benefits of the Federal Social Security Act. If the employees of the Authority shall come within the provisions of said social security act, their employment shall be included in the term "employment" as used in sections one to seven, inclusive, of chapter one hundred and fifty-one A.

Notwithstanding any provisions of chapter one hundred and six or of any other provision of law, the Authority by the filing of financing statements as provided in said chapter one hundred and six, may perfect security interests in revenues and receipts of participating

institutions for higher education, whether in the form of proceeds of accounts receivable or contract rights, interest and principal payable on education loans or otherwise, and in any rights to receive such revenues and receipts, and such perfected security interests shall take priority over any subsequently perfected security interests in such revenues, receipts or rights or in the accounts receivable, payments of interest or principal, goods, contract rights, or other rights or personal property giving rise to such revenues, receipts or rights provided that the financing statements filed by the Authority contain a reference to this section. (1981, 803; 1982, 356, § 23.)

Editorial Note--

The 1982 amendment replaced "financial", appearing in the first part of the second paragraph, with "financing".

§ 22A. Liability of Authority Resulting from Activities of Members, Officers or Employees; Liability of Members, Officers and Employees; Indemnification; Limitation of Actions.

The Authority shall be liable on all claims made as a result of the activities, whether ministerial or discretionary, of any member, officer, or employee of the Authority acting as such, except for willful dishonesty or intentional violation of the law, in the same manner and to the same extent as a private person under like circumstances; provided, however, that the Authority shall not be liable to levy or execution on any real or personal property to satisfy judgment, for interest prior to judgment, for punitive damages or for any amount in excess of one hundred thousand dollars.

No person shall be liable to the commonwealth, to the Authority or to any other person as a result of his activities, whether ministerial or discretionary, as a member, officer or employee of the Authority except for willful dishonesty or intentional violation of the law; provided, however, that such person shall provide reasonable cooperation to the Authority in the defense of any claim. Failure of such person to provide reasonable cooperation shall cause him to be jointly liable with the Authority, to the extent that such failure prejudiced the defense of the action.

The Authority may indemnify or reimburse any person, or his personal representative, for losses or expenses, including legal fees and costs, arising from any claim, action, proceeding, award, compromise, settlement or judgment resulting from such person's activities, whether ministerial or discretionary, as a member, officer or employee of the Authority; provided that the defense of settlement thereof shall have been made by counsel approved by the Authority.

C. ISC ANNOTATED LAWS OF MASSACHUSETTS § 22A

The Authority may procure insurance for itself and for its members, officers and employees against liabilities, losses and expenses which may be incurred by virtue of this section or otherwise.

No civil action hereunder shall be brought more than three years after the date upon which the cause thereof accrued. (1984, 463, 1 1.)

§ 23. Provisions of Chapter Shall Be Supplemental and Additional to Powers Granted by Other Laws.

The provisions of this chapter shall be deemed to provide a complete, additional and alternative method for the doing of the things authorized thereby and shall be regarded as supplemental and additional to powers granted by other laws; provided the issuance of revenue bonds or notes and revenue refunding bonds or notes under the provisions of this chapter need not comply with the requirements of any other law applicable to the issuance of bonds or notes including, particularly, chapter one hundred and six. Except as otherwise expressly provided in this chapter, none of the powers granted to the Authority under the provisions of this chapter shall be subject to the supervision or regulation or require the approval or consent of any municipality or political subdivision or any department, division, commission, board, body, bureau, official or agency thereof or of the commonwealth. (1981, 803.)

§ 24. Chapter Shall Be Independent of the New England Education Loan Marketing Corporation.

This chapter shall be independent of and in addition to the authority of the New England Education Loan Marketing Corporation established by section one hundred and sixty-one of chapter three hundred and fifty-one of the acts of nineteen hundred and eighty-one. (1981, 803.)

§ 25. Chapter Shall Be Liberally Construed.

The chapter, being necessary for the welfare of the commonwealth and its inhabitants, shall be liberally construed to effect the purposes hereof. (1981, 803.)

§ 26. Obligations of Borrowers Shall Not Be Subject to Discharge in Bankruptcy.

The obligations of a borrower under the provisions of this chapter

§ 26

COLLEGE STUDENT LOAN ACTIVITY

C. 15C

shall not be subject to discharge as a result of bankruptcy proceedings. (1981, 801.)

§ 27. Rights and Properties of Authority to vest in Commonwealth Upon Dissolution, Liquidation or Other Termination of Authority.

Upon dissolution, liquidation or other termination of the Authority, all rights and properties of the Authority shall pass to and be vested in the commonwealth, subject to the rights of bondholders and other creditors. In addition, any net earnings of the Authority, beyond that necessary for retirement of any indebtedness or to implement the public purpose or purposes or program of the commonwealth, shall not inure to the benefit of any person other than the commonwealth. (1982, 356, § 26.)

§ 28. Severability of Provisions.

The provisions of this act are severable, and if any of its provisions shall be held unconstitutional by any court of competent jurisdiction, the decision of such court shall not affect or impair any of the remaining provisions. (1982, 356, § 26.)

of the amount of the accumulated total to which the employee would be entitled if the employee withdrew from the system, the account in such retirement system be an employee's account in the optional retirement plan shall be made in the form of a direct transfer in compliance with the requirements of subchapter of the Federal Internal Revenue Code. The rights of a participant in a pension plan, annuity contracts or certificates, providing for all right in and to the funds accumulated in such contracts or certificates shall be subject to the income taxes levied under the provisions of the Internal Revenue Code. No assignment of any right in or to any optional retirement program shall be valid if made for the purpose of avoiding application from duty by any participant as set forth in chapter thirty-two as long as such assignment is in violation of the Internal Revenue Code; this section shall prevent a participant's right from being attached, taken on execution, or process to satisfy a support order under chapter thirty-two, or any other order under such order constitutes a qualified domestic asset of the Internal Revenue Code.

Jan 12, 1994, by § 145, effective upon passage.

CHAPTER 15C
Massachusetts College Student Loan Authority
[MASSACHUSETTS EDUCATIONAL FINANCING
AUTHORITY]

New Section Added

Sec.

- 5A. College Opportunity Program.
- 5B. Additional Powers and Duties of Authority.
- 5C. Comprehensive State-Supported Supplemental Education Loan Program.
- 14B. College Opportunity Fund.

Special Notice

Ann 1993, ch 625, revised the statutory provisions relative to the Massachusetts College Student Loan Authority, including an apparent change of name to the Massachusetts Educational Financing Authority. Said name has been inserted in brackets, supra, to accurately reflect this name change.

§ 1. Policy and purpose.

It is declared that for the benefit of the people of the commonwealth, the increase of their commerce, welfare and prosperity and the improvement of their health and living conditions, it is essential that this and future generations of youth be given the fullest opportunity to learn and to develop their intellectual capacity and skills. It is declared further that the people of the commonwealth have a direct interest in promoting the education of its citizens and in maintaining and strengthening its system of higher education and that such actions are likely to result in a higher standard of living and higher levels of employment for citizens of the commonwealth. It is recognized that costs connected with undergraduate and graduate higher education are increasingly burdensome and that it is essential that students attending institutions for higher education in the commonwealth and residents of the commonwealth attending institutions for higher education outside the commonwealth, as well as parents and others responsible for paying the costs thereof, be provided with lower cost financial assistance and with convenient and effective savings programs in order to provide for such costs. It is also recognized that educational institutions for higher education within the commonwealth should be provided with appropriate additional means to provide financial assistance to qualified students and to parents and others responsible for paying the costs of education. It is also recognized that, in order to achieve these objectives, it is desirable for the commonwealth to make such financial assistance and savings programs available on a reciprocal basis to students in and residents of other states. Accordingly, it is the purpose of this chapter and the policy of the commonwealth to provide financial as-

For the latest statutes and case citations, call 1-800-627-4130.

History—
 1. Confirmed for 1953, 655.11. Approved January 4, 1954, effective 30 days thereafter.

Special Note

Special Note:-
Acts 1987, ch. 354, § 4, 3-12, entitled "An act relating to the New England education
loan guaranty corporation", which was approved with emergency preamble, July 28, 1987;
by § 27, effective July 1, 1987, provide as follows

(No change through Section 2)

[illegible]

15b. Change through Section 12d

(Section 12A is added.)

[illegible]

1. *Journal of the American Medical Association*, 1997; 277: 1039-1043.

The 1963 amendment reverses this action.

§ 2. Title.

This chapter may be referred to and cited as the "Massachusetts Educational Financing Authority Act". . .

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For later editions and back numbers, see *Advances and Abstracts Periodical*.

History—
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programs, for the benefit of residents with their parents and others responsible and alternative methods to enable institutions commonwealth to assist qualified students on a reciprocal basis to students of other states, all to the public benefit in manner provided herein.

January 6, 1990, effective 90 days thereafter.

of "An act relative to the New England education system with emergency provisions, July 20, 1982, Chapter 70A."

type, nonprofit corporation to be known as The Corporation. The corporation is established and acquiring student loan assets inherited under the Income, other payment of expenses, debt service to the purchase of additional student loan assets, the Code provided, however, that the corporation other purposes, and shall have authority to purposes, as said Section 103(c), or a successor as said Section 103(c) or such successor point, the trust that such purposes do not preclude described in Section 501(c)(3) of the Code or a corporation shall not engage in any activities authorized in Section 501(c)(3) of the Code. For purposes of Section 501(c)(3) of the Code shall be deemed to be an agency of the commonwealth, nonprofit corporation, as provided in the provisions of this sentence is contained in the provisions of hereafter enacted shall be that the corporation is an agency or authority of the commonwealth or a governmental unit or entity pursuant to any obligation not applicable general law and right of the General Laws, 94 effective March 19, 1995.

without one or more A, Institute, may be provided this an amendment of this chapter and in chapter one hundred and eighty of the corporation in such capacity have amendments of this act. After any amendments adopted, articles of amendment signed corporation, stating forth such amendments, shall be the secretary of the commonwealth, such articles of amendment shall have been at Oct 6, 1991, effective 90 days thereafter.

and cited as the "Massachusetts

1 Advance and Vildyear Pamphlet.

History—Amended by 1989, c. 231, § 2, approved January 6, 1990, effective 90 days thereafter. Editorial Note—The 1991 amendment substituted "Massachusetts Educational Financing Authority Act" for "Massachusetts Education Loan Authority Act".

§ 3. Definitions.

As used in this chapter, the following words shall, unless the context otherwise requires, have the following meanings:

- "Authority", the Educational Financing Authority established by section four.
- "Authority loans", loans made by the Authority to other parties from the proceeds of its bonds or from other sources for the purpose of funding education loans.
- "Bonds" or "revenue bonds", revenue bonds or notes of the Authority issued under the provisions of this chapter, including refunding bonds or notes.
- "Bond resolution", the resolution or resolutions of the Authority and the trust agreement or trust agreements, if any, authorizing the issuance and providing for the terms and conditions applicable to bonds.
- "Borrower", a student or any person who has received or agreed to pay an education loan on behalf of a student.
- "Commonwealth bonds", any evidence of general obligation indebtedness issued by the commonwealth.
- "Default insurance", insurance, letters of credit, standby credit agreements, take-out commitments, agreements or other forms of credit insuring against default or guaranteeing timely payments with respect to education loans, Authority loans or bonds.
- "Default reserve fund", a fund established pursuant to a bond resolution for the purpose of securing education loans, Authority loans or bonds.
- "Education loan", a loan to a borrower to finance or reimburse a student's attendance at an institution for higher education made by or on behalf of such an institution or by a financial institution, which loan is made from or in anticipation of an Authority loan or is purchased by the Authority, or such a loan made directly by the Authority.
- "Education loan series portfolio", all education loans made by or on behalf of a specific institution for higher education or participants therein by the Authority and one or more financial institutions which are funded in whole or in part from the proceeds of an Authority loan or such institution out of the proceeds of a related specific bond issue through the Authority.
- "Financial index", a number or percentage compiled or reported periodically by an independent party used to indicate change in cost, price or other magnitude at a specified time, or a rate of interest charged by a particular lender or type of lender from time to time for loans of a particular kind.

"Loan funding deposit", monies or other property deposited by or on behalf of an institution for higher education with the Authority or its bond trustee or other agent for the purpose of (i) providing security for bonds, (ii) funding a default reserve fund, (iii) acquiring default insurance, or (iv) defraying costs of the Authority, such monies or properties to be in such amounts as deemed necessary by the Authority as a condition for such institution's participation in the Authority's programs.

"Institution for higher education", a nonprofit degree-granting educational institution within the commonwealth, whether public or private, authorized by law to provide a program of education beyond the secondary school level or any like institution located in a state other than the commonwealth if, in the judgment of the Authority, participation of institutions in such state in one or more programs of the Authority will be beneficial to citizens of the commonwealth and if, to the Authority's satisfaction, such state has agreed to provide reciprocal opportunities to institutions located in the commonwealth.

"Participating institution for higher education", an institution for higher education which, pursuant to the provisions of this chapter, undertakes or agrees to participate in an education loan program or a savings program of the Authority as provided in this chapter.

"Parent", any parent, legal guardian or sponsor of a student at an institution for higher education.

"Savings program", a program approved and administered by the Authority designed to facilitate and encourage savings by or on behalf of students, future students, and parents for the purpose of paying for the costs of attendance at institutions of higher education.

"Tuition agreement", a contractual arrangement between the Authority and an institution of higher education fixing all or a portion of the direct cost of attendance at such institution in one or more future years at a specified amount subject to adjustment in accordance with one or more financial indices.

History—

Amended by 1998, 633, §2, approved January 6, 1999, effective 90 days thereafter.

Editorial Note—

The 1998 amendment revises this section, amending the definitions of "Authority", "Authority loan", "Loan funding deposit", "Institution for higher education", and "Participating institution for higher education", adding the definition for "Commonwealth bond", "Financial index", "Savings program" and "Tuition agreement", and striking paragraph designators.

§ 4. Membership of the Massachusetts Educational Financing Authority.

(a) There is hereby established a body politic and corporate to be known as the Massachusetts Educational Financing Authority, herein called the Authority. The Authority is constituted a public instrumentality and the exercise by the Authority of the powers granted by this chapter shall be deemed and held to be the performance of an essential public function. The Authority shall consist of nine members who shall be residents of the

60

For later statutes and cross citations, see Annotations and Midyear Revisions.

commonwealth, not more than five of whom shall be members of the same political party. Seven members shall be appointed by the governor. At least four of the members shall be trustees, directors, officers or employees of public or private institutions for higher education in the commonwealth. At least three of the members shall be persons having a favorable reputation for skill, knowledge and experience in the fields of state and municipal finance, banking, law or investment advice or management. The other two members of the Authority shall be the secretary for economic affairs ex officio and the commissioner of administration ex officio, or their designees. The members of the Authority first appointed shall serve for terms expiring on July first in the years nineteen hundred and eighty-three, nineteen hundred and eighty-four, nineteen hundred and eighty-five, nineteen hundred and eighty-six, nineteen hundred and eighty-seven, and nineteen hundred and eighty-eight, respectively, the term of each such member shall be designated by the governor. The term of each ex officio member shall be concurrent with his tenure in that office. Upon the expiration of the term of any originally appointed member his successor shall be appointed for a term of six years. The governor shall fill any vacancy for the remainder of the unexpired term. Any member of the Authority may be removed by the governor for misfeasance, malfeasance or wilful neglect of duty or other cause after notice and a public hearing unless such notice and hearing shall be expressly waived in writing. Members of the Authority may serve for successive terms of office.

[No change through subsection (c).]

(d) Five members of the Authority shall constitute a quorum. The affirmative vote of a majority of all the members of the Authority shall be necessary for any action taken by the Authority. A vacancy in the membership of the Authority shall not impair the right of a quorum to exercise all the rights and perform all the duties of the Authority. Any action taken by the Authority under the provisions of this chapter may be authorized by resolution at any regular or special meeting, and each such resolution shall take effect immediately and need not be published or posted.

[No change in balance of section.]

(History—)

Amended by 1983, 853, H. 1, 1, approved Jan 6, 1984, effective 90 days thereafter; 1991, 706, 1 St. approved, with emergency preamble, Dec 23, 1991.

Editorial Note—

The 1983 amendment by H. 1, created subsection (d), substituting "Massachusetts Educational Financing Authority" for "Massachusetts Education Loan Authority". Increased membership from 7 to 9, the number of members from the same political party from 4 to 5, the number of members appointed by the governor from 3 to 4, and the number of members who are trustees, etc. from 3 to 4, and added the commissioner of administration as an ex officio member, and by 1991, in the last sentence of subsection (d), substituted "Five" for "Four". Section 14 of the amending act provides as follows:

Section 14. The additional member to be appointed by the governor to the Educational Financing Authority, pursuant to section four of this act shall serve for a term expiring on July first, nineteen hundred and ninety-four.

The 1991 amendment, in subsection (d), substituted the italic sentence for one which read:

"The term of each ex officio member shall be concurrent with his or her tenure in that office."

§ 5. Powers of the Massachusetts Educational Financing Authority.

[The opening paragraph is amended to read as follows:]

The purpose of the Authority shall be to assist borrowers and institutions for higher education in the financing and refinancing of the costs of education and to provide students and parents with convenient and effective savings programs, and for these purposes the Authority is authorized and empowered:

[No change through paragraph (f).]

[The following paragraph is added:]

(f) to develop and administer one or more savings programs and to enter into tuition agreements on behalf of itself, the commonwealth, students, parents or any other private parties, all in cooperation with such other public and private parties and in accordance with such criteria or guidelines as the Authority shall deem appropriate to effectuate the purposes of this chapter. To the extent practicable, such savings program or programs shall provide students or parents an opportunity to participate conveniently and shall enable them to set aside relatively small amounts of money at a time and shall incorporate or be available in conjunction with, directly or indirectly, tuition agreements from as many institutions of higher education as feasible. To the extent practicable, and subject to the approval of the state treasurer, at least one such savings program shall include a college opportunity program, as described in section five A. In connection with any savings program or tuition agreement the Authority may accept and hold funds of students, parents, institutions of higher education or others, establish special accounts for such purposes and invest such funds in such manner as is authorized for Authority funds under section eighteen.

[Paragraph (g) is amended to read as follows:]

(g) to establish rules and regulations with respect to Authority loans, educational loans, savings programs and tuition agreements.

[Paragraph (h) is amended to read as follows:]

(h) to receive and accept from any source loans, contributions or grants for or in aid of an Authority education loan financing program or savings program or any portion thereof and, when desirable, to use such funds, property or labor only for the purposes for which it was loaned, contributed or granted.

[No change in balance of section.]

History—

Amended by 1989, c. 55, § 6-B, approved January 6, 1990, effective 90 days thereafter.

Editorial Note—

The 1989 amendment, by § 6, in the opening paragraph, substituted "to provide students and parents with convenient and effective savings programs, and for these purposes" for "the purpose", by § 7, added paragraph (f), by § 8, in paragraph (g), substituted "savings programs and tuition agreements" for "and education loan service portfolio", and by § 9, in paragraph (h), substituted "financing program" for "or savings program".

§ 5A. College Opportunity Program.

The Authority shall, subject to paragraph (f 1/2) of section five, establish

62

For later statutes and case citations, see *Advances and Mayday Pamphlet*.

a college opportunity program, which shall, to the extent feasible, include the following elements:—

(1) In cooperation with the state treasurer, the Authority shall make available commonwealth bonds, including bonds in small denominations or units of participation in commonwealth bonds, for purchase on behalf of named beneficiaries who are anticipated to use the payments on said bonds to provide for costs of attendance at institutions of higher education. Said bonds or units of participation, either or both of which shall be referred to for purposes of this section as college opportunity bonds, shall bear interest at a variable rate determined by reference to a financial index reflecting inflation in costs of attendance at such institutions. No payments of interest or principal on said bonds shall be made except upon maturity or earlier redemption. Said bonds shall be made available with varied and flexible redemption and maturity dates, as required to accommodate the savings requirements for beneficiaries who intend to use the principal and interest on said bonds to provide for costs of higher education. The Authority shall make the arrangements necessary to enable purchasers of college opportunity bonds to make purchases by convenient means, including but not limited to the use of payroll savings plans or other recurrent payments of relatively small amounts. Purchasers of college opportunity bonds may be required to pay fees or to buy said bonds at a premium to cover all or part of the costs of issuance, of administration of the college opportunity program, and of the cost to the commonwealth of associated financial arrangements to limit or control the commonwealth's interest costs for college opportunity bonds.

(2) The Authority shall enter into tuition agreements with public and private institutions of higher education to ensure that tuitions charged to college opportunity bond beneficiaries do not rise at a rate greater than the return on college opportunity bonds. Under such agreements, such institutions will agree, as a condition of being accepted as participating institutions in the college opportunity program, that the tuition charged to a student who pays for said tuition with the proceeds from principal and interest payments from college opportunity bonds will not increase over the tuition at the time of original issuance and sale of said bonds at a rate greater than the interest rate on said bonds and to such other terms as the Authority may require.

(3) The Authority shall, in consultation with the state treasurer, establish rules and regulations for the redemption of college opportunity bonds. Such rules shall provide that such bonds, when redeemed for use in meeting costs of the named beneficiary's higher education at a participating institution or for purchase of additional college opportunity bonds, shall be redeemed for the full value provided for pursuant to paragraph (1). Such rules shall further provide for one or more penalties that reduce such redemption value when college opportunity bonds are redeemed for use in meeting costs of the named beneficiary's higher education at an institution other than a participating institution or when they are redeemed for use for other purposes. Such rules shall further allow for the substitution, in appropriate circumstances, of a

C. 15C.

sibling or other close relative in place of the named beneficiary, for the purposes of the restrictions imposed by this paragraph and may allow for early redemption in cases of extreme hardship.

(d) The Authority shall study, and shall consult with the state treasurer and the secretary of administration and finance concerning, the practicability and the desirability of the commonwealth entering into financial arrangements, pursuant to section thirty-eight C of chapter twenty-nine, to limit or control the potential costs to the commonwealth of meeting its interest obligations on college opportunity bonds.

(e) The Authority shall investigate the possibility of, and, if feasible, shall negotiate, reciprocal agreements with other governmental entities offering similar college savings plans. Such agreements shall be designed to allow named beneficiaries of college opportunity bonds to use such bonds for educational costs, and to receive the benefits of tuition agreements, at the widest possible range of institutions of higher education, and to allow institutions of higher education in the commonwealth to receive the benefits of participation in college savings programs established by other governmental entities.

History--

Added by 1989, 655, § 10, approved January 6, 1990, effective 90 days thereafter.

§ 5B. Additional Powers and Duties of Authority.

For the purposes of implementing and administering savings programs, pursuant to paragraph (f) (1) section five, the Authority shall have, in addition to all other powers and duties provided by this chapter, the following additional powers and duties:

(a) To create and supervise a marketing and distribution system for bonds of other units of participation in savings programs, either or both of which shall be referred to for purposes of this section as "units", and to establish proper books of record and account to record the identity of the purchasers and the named beneficiaries, the amounts payable as principal and interest, the receipts and expenses of the Authority with respect to the program and other matters necessary to the administration of the program.

(b) To establish minimum and maximum unit amounts with respect to the savings programs, procedures for the crediting of interest accrued with respect to the units, procedures with respect to payment of the balance due on the final maturity date of a unit or otherwise, procedures with respect to the determinations of eligible beneficiaries, and procedures to accommodate the acquisition of units through payroll savings plans and other similar programs.

(c) To employ financial, marketing, legal and other consultants and advisors for the purpose of consulting with the Authority on the implementation and ongoing administration of the savings programs and to enter into contracts and agreements necessary in connection therewith.

(d) To provide for the terms and conditions of participation in sav-

§ 5C

ings programs by participating institutions and to prescribe the form of, from time to time, and to execute such contracts and agreements with the participating institutions as shall be appropriate to reflect such terms and conditions.

(e) To enter into one or more contracts and agreements for marketing, distribution and administration services in connection with savings programs.

(f) To obtain by purchase, lease or license such equipment and facilities, including computer software and hardware, and to employ staff necessary or convenient to carry out the savings programs.

(g) To establish a schedule of fees and charges, including premiums in connection with the sale of units of savings, sufficient to provide for the estimated costs of the program incurred by the Authority.

(h) To take such further actions and establish such further procedures as shall be appropriate to carry out the purposes of the savings programs.

History—
Added by 1989, 632, § 10, approved January 6, 1990, effective 90 days thereafter.

§ 5C. Comprehensive State-Supported Supplemental Education Loan Program.

The authority is hereby authorized to develop and establish a comprehensive state-supported supplemental education loan program. Such program shall consist of medium and long-range fixed rate and variable rate loan programs, programs structured to operate as a line of credit, and other programs and options as the authority may determine to be useful and feasible. Such programs shall be at effective rates of interest and other terms, to the extent feasible and to the extent funds are appropriated by the commonwealth therefor, more attractive than prevailing rates and more attractive than other terms available from conventional supplemental education lenders.

The authority's program shall be developed and operated in conjunction with participating institutions of higher education and shall be designed to assist such institutions in attracting and retaining students. Such program shall be designed so as to maximize the amount of funds available for loans by leveraging amounts appropriated by the commonwealth with private sector financing and by operating in conjunction with such private activity tax-exempt bond cap as may be allocated by the commonwealth. Such program shall include, to the maximum extent feasible and subject to the appropriation of funds by the commonwealth, loans available on affordable terms to families or individuals who, because of a high debt-to-income ratio, may otherwise be ineligible for credit-based supplemental education loans.

The authority shall design such comprehensive program, and make the public aware of it, in such manner as to provide assistance to as many qualified students and to as many institutions of higher education as possible. Funds appropriated by the commonwealth to the authority for the

purpose of this section shall be applied by the authority solely to the reasonable and necessary development costs of its programs and to the funding of reasonable and necessary reserves and other security arrangements for its programs, all, to the extent feasible, in such manner as to develop over time a self-replenishing permanent source of education loan funding.

History—

Added by 1992, 133, § 12, passed notwithstanding disapproval by the Governor on July 28, 1992, by § 599 effective July 1, 1992.

§ 7. Authority to Establish Certain Guidelines.

The Authority is authorized and empowered to establish specific guidelines relating to the deposits of certain monies, endowments, or properties by institutions for higher education which would provide security for education loans funding programs, Authority loans, education loans or for bonds and to establish guidelines relating to guarantees of or contracts to purchase education loans, tuition agreements or bonds by such institutions or by financial institutions or others. A default reserve fund may be established for each series or issue of bonds. In this regard, the Authority is empowered to receive such monies, endowments, properties, and guarantees as it deems appropriate and, if necessary, to take title in the name of the Authority or in the name of a participating institution for higher education or a trustee.

History—

Amended by 1989, 655, § 11, approved January 6, 1990, effective 90 days thereafter.

Editorial Note—

The 1989 amendment, in the first sentence, following the third appearance of "education loans", inserted "tuition agreements".

§ 14. Monies Received Under Chapter Shall Be Deemed Trust Funds.

All monies received pursuant to the Authority of this chapter, whether as proceeds from the sale of bonds or notes, in connection with any savings program or as revenues, shall be deemed to be trust funds to be held and applied solely as provided in this chapter. Any officer with whom, or any bank or trust company with which, such monies shall be deposited shall act as trustee of such monies and shall hold and apply the same for the purposes hereof, subject to such regulations as this chapter and the resolution authorizing the bonds or notes of any issue or the trust agreement securing such bonds or notes may provide.

History—

Amended by 1989, 655, § 12, approved January 6, 1990, effective 90 days thereafter.

Editorial Note—

The 1989 amendment, in the first sentence, following "notes", inserted "in connection with any savings program".

§ 14A. Certain Institutions Empowered to Enter Into Contracts to Participate in Finance Assistance Program; State Colleges and Universities Participation Fund Established.

Notwithstanding any special or general law to the contrary, the board of

trustees of each institution referred to in this section shall have the authority to enter into such contracts, subject to appropriation, as in their respective judgments are desirable in order to participate in any program established pursuant to this chapter. The Authority shall establish a state colleges and universities participation fund to which shall be credited all state appropriations and other monies made available to the fund. Monies in the fund may be used solely for the purpose of supporting the participation in the education loan program established pursuant to this chapter of state colleges and institutions under the control of the board of trustees of state colleges, the University of Lowell, the Southeastern Massachusetts University, the University of Massachusetts and the other institutions named in section three of chapter fifteen A. Monies therein may be held in custody by one or more banks or trust companies having a principal place of business in the commonwealth or may be invested in the manner set forth in section eighteen, as the Authority shall determine. Income earned on the fund may be used for any lawful purpose of the Authority. The Authority may pledge all or a portion of the monies or investments which are to be deposited in the fund, or any income therefrom, in furtherance of the purpose for which such fund is created. Such pledge shall be valid and binding as against all parties having claims of any kind against such fund from the time such pledge is made, irrespective of whether such parties have notice thereof.

History—

Amended by 1997, 853, § 13, approved January 6, 1998, effective 90 days thereafter.

Editorial Note—

The 1997 amendment, in the first sentence, changed "education loan program" to "any program".

Total Cited/Service Library References—

68 Am Jur 2d, Schools II §1-98.

§ 14B. College Opportunity Fund.

The Authority shall establish, in such form as it deems appropriate, a college opportunity fund, hereinafter referred to as the fund, to which shall be credited all state appropriations and other monies made available to the fund and all income earned on amounts in the fund. Monies in the fund, together with earnings thereon, may be used solely for the purpose of developing, promoting, administering or supporting savings programs and tuition agreements established under this chapter. Monies therein may be held in custody by one or more banks or trust companies having a principal place of business in the commonwealth or may be invested in the manner set forth in section eighteen, as the Authority shall determine. The Authority may pledge all or a portion of the monies or investments which are to be deposited in the fund, or any income therefrom, in furtherance of the purpose for which such fund is created. Such pledge shall be valid and binding as against all parties having claims of any kind against such fund from the time such pledge is made, irrespective of whether such parties have notice thereof.

History—

Added by 1901, c. 55, § 14, approved January 6, 1900, effective 30 days thereafter.

§ 18. Authorized Investments of Funds.

Except as otherwise provided in paragraph (c) of section seventeen, or as provided in any bond resolution applicable to any bonds of the Authority, the Authority may invest any funds in (i) direct general obligations of the United States of America, (ii) obligations the payment of the principal and interest on which, by Act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the United States of America, (iii) bonds, debentures, participation certificates, notes or similar evidences of indebtedness payable in cash issued by any one or a combination of any of the following: Federal Banks for Commerce, Federal Land Banks, Federal Home Loan Banks, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Export-Import Banks of the United States, Farmers Home Administration, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association, and the Student Loan Marketing Association, (iv) public housing bonds issued by public agencies or municipalities are fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preference shares or project notes issued by public agencies or municipalities, each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America, or direct and general obligations of any state or political subdivision of the United States to the payment of the principal and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase such obligations are rated in one of the four highest rating categories by any nationally recognized rating agency, (v) bank time deposits evidenced by certificates of deposit or time deposits constituting direct obligations of banks which are members of the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, provided that, to the extent such time deposits exceed available federal deposit insurance, such time deposits are fully secured by obligations described in items (i) through (iv) above, which at all times have a market value (exclusive of accrued interest) at least equal to such bank time deposits so secured, including interest, or such deposits are due within one year and are issued by banks the senior long-term debt securities of which are rated in one of the four highest categories by any nationally recognized rating agency, (vi) repurchase agreements for obligations of the type specified in clauses (i) through (iv) above with federally insured banking institutions which have a capital and surplus aggregating at least one hundred million dollars, provided such repurchase agreements are fully collateralized and secured by such obligations having a market value, exclusive of accrued interest, at least equal to the purchase price of such repurchase agreements and which shall be delivered to a trustee, (vii) investment agreements with banks the senior long-term debt

68

For later statutes and case citations, see Annotations and Midyear Pamphlet.

securities of which are rated in one of the four highest categories by any nationally recognized rating agency and which have a capital and surplus aggregating at least one hundred million dollars, and (iv) in any other manner specifically approved for the purpose of the particular investment by resolution of the Authority. Any such securities may be purchased at the offering or market price thereof at the time of such purchase. All such securities so purchased shall mature or be redeemable on a date or dates prior to the time when, in the judgment of the Authority, the funds so invested will be required for expenditure. The express judgment of the Authority as to the time when any funds shall be required for expenditure or be redeemable is final and conclusive.

History—

Amended by 1989, 663, § 15, approved January 6, 1990, effective 90 days thereafter.

Editorial Note—

The 1989 amendment, in the last sentence, preceding the designation "and", substituted a comma for "and", and following "dollars" in the end inserted ", and (iv) in any other manner specifically approved for the purpose of the particular investment by resolution of the Authority".

§ 20. Accounting by Authority.

The Authority shall keep an accurate account of all its activities and of all its receipts and expenditures and shall annually make a report thereof as of the end of its fiscal year to its members, to the governor and to the state auditor, such reports to be in a form prescribed by the members, with the written approval of said auditor. The members or said auditor may investigate the affairs of the Authority, may severally examine the proper files and records of the Authority, and may prescribe methods of accounting and the rendering of periodical reports in relation to projects undertaken by the Authority. The Authority shall be subject to biennial audit by the state auditor.

History—

Amended by 1984, 78, § 2, approved June 22, 1985, effective 90 days thereafter.

Editorial Note—

The 1984 amendment added the last sentence which reads "The Authority shall be subject to biennial audit by the state auditor."

§ 21. Institutions of Higher Education Empowered to Consummate Loans; Interest Rates.

Notwithstanding any other provision of law, any participating institution for higher education shall have the power to borrow money from the Authority, make education loans, enter into tuition agreements, participate in savings programs and take all other actions and do such things as are necessary or convenient to consummate the transactions contemplated under this chapter. It shall be lawful for the Authority to establish, charge, contract for and receive any amount or rate of interest or compensation with respect to authority loans or education loans and it shall also be lawful, notwithstanding any other provision of law, to make authority loans or education loans at a rate of interest which may, during the life of such

C. 15C

ANNOTATED LAWS OF MASSACHUSETTS

§ 21

loans, be varied or revised upon such terms or conditions as may be established by the Authority. It shall also be lawful for any institution of higher education to charge, contract for and receive any amount or rate of interest or compensation, including amounts or rates of interest which may be varied or revised upon such terms or conditions as may be established by the institution, with respect to education loans.

History—

Amended by 1982, 633, § 16, approved January 6, 1982, effective 90 days thereafter.

Editorial Note—

The 1989 amendment, to the first sentence, following "loan", inserted " , enter into tuition agreements, participate in savings programs".

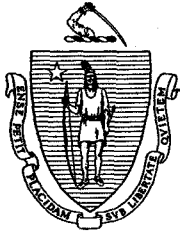
§ 26A. (Added by 1993, 110, § 63, approved July 19, 1993, by § 390, effective July 1, 1993) Repealed by 1993, 493, § 11, approved Jan 14, 1994, by § 145, effective upon passage.

Editorial Note—

Former ALM GL c 15C § 26A was entitled: Annual report of borrowers in default for one year.

70

For later statutes and case citations, see Advances and Editors' Pamphlet.



The Commonwealth of Massachusetts
Department of the State Treasurer
State House

Boston, Mass. 02133

Timothy P. Cahill
Treasurer and Receiver General

November 30, 2010

The Honorable Steven C. Panagiotakos, Chair
Senate Committee on Ways and Means
State House, Room 212
Boston, Ma 02133

The Honorable Charles A. Murphy, Chair
House Committee on Ways and Means
State House, Room 243
Boston, Ma 02133

Jay Gonzalez, Secretary
Executive Office for Administration and Finance
State House, Room 373
Boston, Ma 02133

Thomas Graf, Executive Director
Massachusetts Educational Financing Authority
160 Federal Street, 4th Floor
Boston, Ma 02110

Dear Sir or Madam:

Pursuant to Massachusetts General Laws Chapter 29, Section 49C (the "Statute"), I hereby submit my report in connection with the proposed issuance by the Commonwealth of Massachusetts of its General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds Series A (the "2010 Bonds"). The Treasurer and Receiver-General (the "Treasurer") is authorized under the Statute to set aside and issue general obligation bonds of the Commonwealth for the purposes of college savings programs administered by the Massachusetts Educational Financing Authority ("MEFA") under chapter 15C of the Massachusetts General Laws. The 2010 Bonds will be the sixteenth issue of Commonwealth bonds in connection with the college savings program, which is described below.

In 1994, MEFA, the Treasurer's Office, and the Executive Office for Administration and Finance structured a program known as the U. Plan: The Massachusetts College Savings Program (the U. Plan"). Through the use of the specialized College Opportunity Bonds described below and tuition agreements with certain public and private Massachusetts colleges and universities, families, under the U. Plan, can save for their children's college education and effectively lock in today's tuition rates. Currently, over 80 Massachusetts colleges and universities are participating in the U. Plan.

Prior to issuing College Opportunity Bonds, the Statute requires the Treasurer to prepare a report establishing the maximum amount of such Bonds to be issued in a fiscal year and determining that the issuance of such Bonds to the stated extent is prudent. In particular, the Statute requires the Treasurer to conclude that the anticipated future interest and principal payments on the College Opportunity Bonds are not expected to exceed, by more than \$5,000,000 in any single fiscal year the anticipated future interest and principal payments on Commonwealth bonds issued other than in connection with a college savings program. This report relates to the December 2010 issuance of College Opportunity Bonds.

In accordance with the Statute and the U. Plan, I have set aside and intend to issue on or about December 1, 2010 up to \$8,425,898.26 in initial principal amount of 2010 Bonds, the maximum amount of such Bonds presently intended to be issued in Fiscal Year 2011. A schedule indicating the expected initial principal amount of each maturity of the 2010 Bonds is included as Attachment A. The amount of each maturity ultimately issued may vary slightly from that shown, and will be in accordance with final account reconciliations. All of the 2010 Bonds will bear interest in two components: a current interest component and an accreting component. The current interest component will be 0.50% of the initial principal amount of each 2010 Bond, payable semi-annually on each August 1 and February 1, beginning February 1, 2011 and continuing to its maturity. The accreting interest component will accrue and compound on each August 1 until maturity at an annual interest rate equal to the change in the Consumer Price Index - All Urban Consumers, All Items ("CPI Index"), as published in the month before the compounding date, from the CPI Index as published in the same month of the preceding year, plus 2%. The accreting interest component will be payable at maturity.

Because of the variable nature of the CPI, the Commonwealth, to some extent, will be at risk for payments above its ordinary borrowing costs in the event of certain magnitudes of increase in the CPI Index during the life of the College Opportunity Bonds. Similarly, during periods in which the CPI-indexed rate is low, as is present case, the Commonwealth may benefit. While no absolute assurance can be given, I find it reasonable to conclude, under current facts and circumstances, that relevant average annual inflation rates will not reach the levels that would cause the debt service on College Opportunity Bonds to exceed the debt service on Commonwealth bonds by more than \$5 million in any year of the program. Further, based on analysis completed by Public Financial Management, Inc. who has served as financial advisor to The Commonwealth on this transaction, the stated interest rates for the Bonds issued are consistent with market rates of interest which would be required by the Commonwealth to market similar bonds of like maturities not issued in connection with the U. Plan. Consequently, I have determined that it is prudent, within the meaning of the Statute, to issue the College Opportunity Bonds.

If you or your staff have any questions, particularly regarding my conclusion or the assumptions upon which it is based, please feel free to contact Colin MacNaught, the Assistant Treasurer for Debt Management, at 617-367-9333 extension 226.

Very truly yours,



Timothy P. Cahill
Treasurer and Receiver-General of
The Commonwealth of Massachusetts

Attachment A

**The Commonwealth of Massachusetts
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A**

Expected Issuance

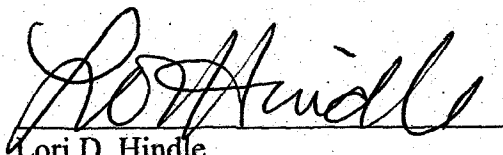
Maturity Year <u>(August 1)</u>	Initial Principal <u>Amount</u>
2015	\$1,850,896.66
2016	908,645.16
2017	615,213.08
2018	766,960.77
2019	578,388.22
2020	548,561.52
2021	427,521.91
2022	400,165.99
2023	329,729.00
2024	333,831.53
2025	335,151.50
2026	402,377.50
2027	518,821.26
2028	236,496.83
2029	118,102.33
2030	<u>55,035.00</u>
TOTAL	\$8,425,898.26

FINANCE ADVISORY BOARD

Re: The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A dated August 1, 2010 (the "Bonds")

I, Lori D. Hindle, hereby certify that on October 25, 2010, I was the Secretary of the Finance Advisory Board of The Commonwealth of Massachusetts (the "Board"), and, in connection with the issuance of the above-referenced bonds, I hereby further certify that at a meeting of the Board held on October 25, 2010, of which meeting due notice was given to all members of the Board and to the public in accordance with the requirements of the open meetings law and at which a quorum was present, a vote was unanimously passed in connection with the sale of the Bonds, a true copy of which is attached hereto as Exhibit A.

IN WITNESS WHEREOF, I hereunto set my hand this 1st day of December, 2010.

A handwritten signature in cursive script, appearing to read "Lori D. Hindle", written over a horizontal line.

Lori D. Hindle

Secretary of the Finance Advisory Board
of The Commonwealth of Massachusetts

EXHIBIT A

October 25, 2010

RESOLVED: That the Board has received satisfactory information regarding the proposed Commonwealth of Massachusetts College Opportunity Bonds transaction on behalf of the UPlan and the Commonwealth of Massachusetts as presented and deem the transaction reviewed with no additional conclusions required.



Program Description and Offering Statement

As of May 1, 2010

mefa
UPLAN
Prepaid Tuition Program

MAY 1 - JUNE 30, 2010

Program Description and Offering Statement relating to the U.Plan: The Massachusetts Tuition Prepayment Program

This Program Description and Offering Statement (the “Offering Statement”) describes The U.Plan: The Massachusetts Tuition Prepayment Program (the “U.Plan” or the “Program”) administered by the Massachusetts Educational Financing Authority (“MEFA”), and is provided in connection with the offering, as part of the U.Plan, of beneficial ownership interests (called Tuition Certificates) in The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds Series A (the “Bonds”). Purchase, ownership, transfer and use of Tuition Certificates are subject in all respects to the terms and conditions set forth in the Enrollment Agreement attached as Appendix A to this Offering Statement. In this Offering Statement, “you” refers to the person who deposits money with MEFA for the purchase of a Tuition Certificate (the “Purchaser”) and who will own the Tuition Certificate upon its issuance (the “Owner.”) The capitalized terms not otherwise defined in this Offering Statement have the meanings set forth in the Definitions Section of the Enrollment Agreement attached as Appendix A to this Offering Statement.

The Bonds and Tuition Certificates have been specially structured to accommodate the objectives of the U.Plan, and have certain features that are substantially different from those of ordinary bonds issued by The Commonwealth of Massachusetts (the “Commonwealth”). You should read this Offering Statement in its entirety, including the information about tax matters relating to the Bonds and the Program and restrictions on transferability of Tuition Certificates, which substantially limit your ability to access moneys in the Program prior to the maturity of your Tuition Certificates, before you submit a Purchase Request Form or deposit any money to purchase a Tuition Certificate.

In order to evaluate the creditworthiness of the Bonds, you should review certain financial, budgetary and economic information relating to the Commonwealth set forth in the most recent Commonwealth Information Statement, which as of the date of publication of this Offering Statement is expected to consist of the Commonwealth Information Statement dated March 26, 2009 (the “March 2009 Information Statement”) as supplemented by the Commonwealth Information Statement Supplement dated March 2, 2010 (the “Supplement”). This Commonwealth Information Statement is not attached to this Offering Statement. It appears, in the case of the March 2009 Information Statement, as Appendix A in the Commonwealth’s Official Statement dated May 20, 2009 with respect to its General Obligation Bonds, Consolidated Loan of 2009, Series B, its General Obligation Bonds, Consolidated Loan of 2009, Series C and its General Obligation Bonds, Consolidated Loan of 2009, Series D (the “May 2009 Official Statement”) and in the case of the Supplement, as Appendix A in the Commonwealth’s Official Statement dated March 11, 2010 with respect to its General Obligation Refunding Bonds (SIFMA Index Bonds) Series 2010A (the “March 2010 Official Statement”). Copies of the March Official Statement and the May Official Statement are available on the Electronic Municipal Market Access (“EMMA”) system website of the Municipal Securities Rulemaking Board (the “MSRB”), which can be accessed at <http://emma.msrb.org>. In order to evaluate the creditworthiness of the Bonds, you should also review subsequent filings by the Commonwealth to the EMMA system prior to the issuance of the Bonds and Tuition Certificates, including any supplements to or revisions of the Commonwealth Information Statement and any continuing disclosure documents identified as “other financial/operating data” on the EMMA system. Exhibits B and C to the Commonwealth Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2009, prepared on a statutory basis and on a GAAP basis, respectively. Such financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Financial Reports.”

The Commonwealth Information Statement, together with any supplements or revisions thereof occurring prior to the issuance of the Bonds and Tuition Certificates to be issued in 2010, also may be obtained by calling (800) 449-MEFA or may be reviewed at the offices of MEFA. If you review the Commonwealth Information Statement during the Enrollment Period in connection with your decision to purchase Tuition Certificates, you should call (800) 449-MEFA prior to July 1, 2010 to obtain any supplements or revisions to such Commonwealth Information Statement occurring subsequent to your deposit of money to purchase a Tuition Certificate. See also “SECURITY FOR THE BONDS AND TUITION CERTIFICATES.”

MEFA expects that the Program will be substantially similar in future years; however, the features of the Program and Tuition Certificates described in this Offering Statement apply only to Tuition Certificates issued in 2010; please note that no representation or guarantee can be made that the features of the Program and the Tuition Certificates in future years will be similar in all respects to those described in this Offering Statement.

General Program Description

The U.Plan is a prepaid tuition program that permits you to save for a beneficiary’s undergraduate tuition and Mandatory Fees at participating Massachusetts colleges and universities (“Participating Institutions”) in a manner designed to preserve the purchasing power of your savings. If you participate in the U.Plan through the purchase of one or more Tuition Certificates, you, the Owner, will receive a beneficial ownership interest in certain general obligation bonds issued by the Commonwealth that will bear interest at a rate linked to changes in the consumer price index (“CPI”) as described under “THE BONDS AND THE TUITION CERTIFICATES.” The tuition rights you will have, as an Owner of Tuition Certificates at Participating Institutions in future years, as described below, are determined by the terms of Participation Agreements entered into by MEFA with each Participating Institution.

You must designate a beneficiary who is related to the Owner as described in the Enrollment Agreement (a “Qualifying Beneficiary”). Each Tuition Certificate will be issued with a schedule (the “Tuition Schedule”) of percentages of a full academic year’s educational services (that is, the services generally covered by tuition and Mandatory Fees) that can be obtained at each Participating Institution by the Qualifying Beneficiary in the academic year that begins in the year the Tuition Certificate matures, in exchange for the amount payable on the Tuition Certificate at maturity. The percentage recorded on the Tuition Schedule is the percentage of tuition and Mandatory Fees (“Tuition”) at the Participating Institution that you could pay for with the original amount invested in the Tuition Certificate (the “Investment Amount”) in the academic year that begins in the year you buy the Tuition Certificate. Because Tuition at Participating Institutions for the 2010-2011 academic year will not be established until May or June of 2010, the actual percentages for each Participating Institution for the Tuition Schedule relating to Tuition Certificates issued in 2010 are not available as of the date of this Offering Statement and may not be available for some Participating Institutions until after you have irrevocably agreed to purchase, and deposited money to pay for, the Tuition Certificate. MEFA does not intend to update this Offering Statement when the actual percentages for each Participating Institution for the Tuition Schedule relating to Tuition Certificates issued in 2010 become available. You will receive annual statements from the Program Recordkeeper about one month after the Tuition Certificates are issued listing the Tuition Certificates purchased in your name and the percentages recorded on the applicable Tuition Schedule.

The Enrollment Agreement sets forth the requirements for applying your Tuition Certificate for a Qualifying Beneficiary's tuition in the academic year that begins in the year the Tuition Certificate matures. Alternatively, subject to the provisions of the Enrollment Agreement, it may be possible to use your Tuition Certificate for a Qualifying Beneficiary (a) in either of the two academic years that begin prior to the year the Tuition Certificate matures (but subject to the availability of Program funds) or (b) in any of the academic years that begin within six years after the year in which the Tuition Certificate matures. See Section 3.02 and Section 3.03 of the Enrollment Agreement. However, the amount of tuition and Mandatory Fees credited by a Participating Institution upon application of a Tuition Certificate in an academic year that begins after the year in which the Tuition Certificate matures is based on the value of the tuition and Mandatory Fees that would have been credited at such Participating Institution in the academic year beginning in the year in which the Tuition Certificate matures. This means that a Tuition Certificate "locks in" a specified percentage of tuition and Mandatory Fees at a Participating Institution in the academic year that begins in the year in which the Tuition Certificate matures, but does not keep up with any increases in tuition and Mandatory Fees at such Participating Institution, and does not guarantee any specified percentage of tuition and Mandatory Fees at such Participating Institution, in any academic year beginning after the year in which the Tuition Certificate matures.

Under the Participation Agreements, a Participating Institution is entitled to receive the Tuition Certificate Proceeds for the entire academic year on the first tuition payment date for such academic year. If less than the entire amount of tuition which can be paid with your Tuition Certificate is needed by such beneficiary at that Participating Institution, you can, among other options, designate one additional Qualifying Beneficiary (a "Qualifying Beneficiary Relative" as defined in Appendix A) and use the remaining portion of your Tuition Certificate in the same year to pay for tuition for such second Qualifying Beneficiary at the same or another Participating Institution. A fee in an amount sufficient to cover the additional administrative costs associated with the designation of a second Qualifying Beneficiary may be charged by MEFA. See "FEES."

The amount payable on a Tuition Certificate on its maturity date will be the Investment Amount plus interest accrued from the date the Tuition Certificate was issued until the maturity date at a variable rate equal to the annual increase in CPI plus up to two percent (2%), compounded annually. The Participating Institution is entitled to receive the full amount payable on the Tuition Certificate in exchange for its agreement to provide a guaranteed percentage of educational services in the academic year that begins in the year of maturity. CPI is the Consumer Price Index — All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics (or, if such index is eliminated, any successor to such index) in the month before the Bonds are issued and each subsequent July before the Bonds are paid. The published CPI generally is based on data for the month before the month of publication. If you do not apply your Tuition Certificate to pay tuition for a Qualifying Beneficiary at a Participating Institution as provided in the Enrollment Agreement ("Program Uses"), the cash amount you, the Owner, will receive on the portion of the Investment Amount of your Tuition Certificate not applied to Program Uses will be equal to such portion plus interest accrued at CPI (sometimes referred to as "CPI flat"), compounded annually on each August 1 until the maturity date of your Tuition Certificate. Certain interest that accrues on the Bonds is assigned by the Owner to MEFA. See "THE BONDS AND TUITION CERTIFICATES."

The payments on a Tuition Certificate are derived from payments made by the Commonwealth on the Bonds, and MEFA has no obligation to make payments on a Tuition Certificate upon any delay or failure by the Commonwealth to make the applicable payment on the applicable Bonds. The obligation of a Participating Institution to credit a Qualifying Beneficiary with the percentage of Tuition set forth in the Tuition Schedule in the academic year that begins in the

year in which the Tuition Certificate matures is a contractual obligation of the applicable Participating Institution, and is conditioned on receipt by the applicable Participating Institution of the full amount payable on the Tuition Certificate at maturity from payments made on the applicable Bonds by the Commonwealth, as well as on the Qualifying Beneficiary's admission and continued enrollment at the Participating Institution and the continued existence of the Participating Institution when the Tuition Certificate proceeds are applied. MEFA has no obligation with respect to the payment of, or the amount of, Tuition payable by a Qualifying Beneficiary at a Participating Institution and a Participating Institution has no obligation to credit any Tuition to the Qualifying Beneficiary of a Tuition Certificate upon any delay or failure by the Commonwealth to make the applicable payments on the applicable Bonds and/or any delay or failure by the Participating Institution to receive the full amount paid at maturity on a Tuition Certificate. If a Participating Institution were to fail to honor its obligation to credit Tuition Certificates appropriately, MEFA has the contractual right to seek enforcement of such obligation.

When a Tuition Certificate matures or is tendered early an amount equal to the Investment Amount plus compounded interest at a rate equal to CPI plus up to 2% until the maturity date or early tender date will be deposited to a special account (the "Owner Account") established at the Program Account Institution. At MEFA's election, the Owner Account may be established as a book entry in your name within an account established by MEFA to hold such proceeds of Tuition Certificates, or in a segregated account maintained directly in your name. You, the Owner, must notify MEFA of your intent to apply or withdraw money from such account, and such payment or withdrawal will be made after MEFA has confirmed that the amount to be paid or withdrawn has been properly calculated. You must maintain the payment you receive on your Tuition Certificate in the Owner Account until such money is transferred directly to a Participating Institution to pay tuition for your Qualifying Beneficiary in a permitted year or until you decide to withdraw such money. You must apply the entire amount deposited in your Owner Account from a particular Tuition Certificate to Program Uses and/or withdraw moneys in your Owner Account from such Tuition Certificate at the same time and no later than the beginning of the sixth academic year following the academic year that begins in the maturity year. Your Owner Account relating to a Tuition Certificate will be closed after the beginning of such sixth academic year, and the appropriate portion of any balance remaining in such Owner Account at the time it is closed will be paid over to you as though you had made a withdrawal for a purpose other than Program Uses. Once withdrawn from the Owner Account, moneys you received on a Tuition Certificate will not entitle a Qualifying Beneficiary to Program advantages at any Participating Institution. Amounts in an Owner Account will be invested in bank deposits, notes or bonds issued or guaranteed by the United States, investments fully collateralized by such securities, taxable or tax-exempt money market funds, or the Massachusetts Municipal Depository Trust, maturing or available no later than the date such money is expected to be applied under this Enrollment Agreement. You will earn interest (which may be taxable) at a short-term interest rate based on the earnings realized through such investment on amounts on deposit in your Owner Account and pay an annual fee on such account until such amounts are applied for Program Uses or withdrawn from the account. MEFA will report such interest to you annually as required by applicable tax law. Applicable tax law currently requires such reporting without regard to whether the interest is tax-exempt or taxable and without regard to whether such interest has been distributed to you or retained in the Owner Account.

If a Qualifying Beneficiary becomes entitled to a refund of all or any portion of Tuition paid for with a Tuition Certificate, the Participating Institution will refund such portion to or as instructed by MEFA. The use of such amount is subject to the provisions of the Enrollment Agreement.

Tuition Certificates are offered when, as and if the Bonds are issued by the Commonwealth. Bonds and Tuition Certificates offered in 2010

are expected to be issued on or about August 1, 2010, and will bear interest from August 1, 2010. In certain circumstances, the Bonds may be issued subsequent to August 1, 2010 (and in certain prior years of the Program Commonwealth bonds issued in connection with the Program have been issued after the expected August 1 issuance date), but the Bonds, and the related Tuition Certificates, will bear interest from August 1, 2010 irrespective of the issuance date. Tuition Certificates are designed as long-term investments for the purpose of financing college education at Participating Institutions, and you should not purchase Tuition Certificates if you anticipate a need to transfer or liquidate the investment before the Tuition Certificate's Maturity Date. The ability to transfer ownership of or sell your Tuition Certificate prior to maturity, and accordingly the ability to obtain cash for your Tuition Certificate prior to maturity, is significantly limited by the terms of the Enrollment Agreement as compared to other Commonwealth bonds. See "THE BONDS AND THE TUITION CERTIFICATES - Transfer or Sale of the Tuition Certificates" in this Offering Statement.

The legal opinions concerning the tax consequences of ownership and use of Tuition Certificates to be delivered in connection with the issuance of the Bonds and the Tuition Certificates are described under the heading "TAX MATTERS" in this Offering Statement. Because of the unique features of the Program, such opinions differ from the opinions ordinarily given in connection with Commonwealth bonds, and reflect a lesser degree of certainty about the tax treatment of the Bonds and the Tuition Certificates. Owners of Tuition Certificates who reside in states other than Massachusetts should consult their tax advisors as to the state income tax consequences of ownership of Tuition Certificates. In states other than Massachusetts, state income tax may be due on the accruing interest of CPI plus up to 2% and on the 0.5% semi-annual current interest described herein.

A variety of savings and investment products are available to parents and other persons who wish to provide for the future payment of tuition and other higher education costs for their children or other beneficiaries. There are substantial differences in the structure, benefits, risks and liquidity provided by each such program, and the appropriateness of any such program, and the relative benefits of participating in any particular program, may depend on the particular program, the particular individual, the particular timeframe and other factors. No assurance can be provided that the performance of the U.Plan and the Tuition Certificates in general or for any particular Owner or Qualifying Beneficiary will compare favorably with existing alternative savings and investment products or ones that may be developed in the future. For example, MEFA offers an alternative tuition savings program, called the "U. Fund," which has significantly different features from the U.Plan, and other programs may be developed from time to time by MEFA and other entities. In addition, other tax-advantaged prepaid tuition programs, including prepaid tuition programs that may include some of the private colleges and universities participating in the U.Plan, are in existence or may arise from time to time. You should carefully evaluate whether the features of the U.Plan meet your objectives relative to other potential investments before investing in the U.Plan's Tuition Certificates. See "CERTAIN INVESTMENT CONSIDERATIONS."

You may apply to purchase 2010 Tuition Certificates only by submitting a Purchase Request Form, together with a check equal to the aggregate Investment Amount of the Tuition Certificates requested, to MEFA on or before June 30, 2010. For information regarding refunds if the demand for Tuition Certificates exceeds the available supply, or if because of changes in tax laws or other reasons Bonds and Tuition Certificates are not issued, see "ALLOCATION OF TUITION CERTIFICATES; DEPOSIT REFUNDS."

Under certain circumstances, applicants for Tuition Certificates in 2010 may receive tuition certificates representing beneficial ownership interests in Commonwealth general obligation bonds issued in prior years in connection with the Program. The percentages of Tuition set forth on the Tuition Schedule for any such tuition certificate will be based on the 2010-2011 academic year tuition that could be purchased at each Participating Institution with the applicant's

Investment Amount, and such tuition certificates will function in all other respects in the same manner as the Tuition Certificates described in this Offering Statement.

The Bonds and the Tuition Certificates

The Bonds and Tuition Certificates will bear interest as described below from August 1, 2010. The interest payments received by an Owner of a Tuition Certificate with respect to any portion of the initial Investment Amount not applied to Program Uses, will, after deduction of Assigned Payments, be less than the stated interest rate payable on the applicable Bond and Tuition Certificate, as described under "Cash Payments Received by Owners of Tuition Certificates." The Bonds will mature on August 1 in the years from 2015 through 2030 and in the aggregate initial principal amounts determined prior to the issuance thereof by the Commonwealth, after consultation with MEFA, based on considerations including the aggregate demand for Tuition Certificates of each maturity and applicable legal and financial constraints on the aggregate initial principal amount of Bonds and on the initial principal amount of Bonds of each maturity. It is expected that bonds and Tuition Certificates offered in 2011 will be issued on or about August 1, 2011 (although in certain instances issuance may occur at a later date with interest accruing from August 1) and will mature on August 1, 2016 through August 1, 2031 and that, in subsequent years, the bonds and Tuition Certificates offered generally would mature five to twenty years after the year of issuance. The Bonds will be held on behalf of MEFA by the Program Custodian, which will maintain a record of the book-entry system beneficial ownership interests represented by Tuition Certificates; you will not receive physical certificates.

Stated Interest Rates

Interest on the Bonds and Tuition Certificates is payable as follows:

- (i) Each Bond, and each Tuition Certificate representing a fractional beneficial ownership interest in such Bond, will bear interest, payable at maturity, on its respective Accreted Amount at an annual interest rate equal to the Standard Accrual Rate. The Standard Accrual Rate will be equal to the percentage change in CPI since the preceding August 1 (or, in the case of the August 1 immediately following the Issue Date, the annualized percentage change in CPI since the Issue Date), plus 200 basis points (2.0%).
- (ii) Each Bond, and each Tuition Certificate representing a fractional beneficial ownership interest in such Bond, will bear interest on the initial principal amount or Investment Amount thereof, as applicable, payable semi-annually on each August 1 and February 1, beginning February 1, 2011, at an annual rate of 50 basis points (0.5%) (the "Current Coupon"). Pursuant to the Enrollment Agreement, the Current Coupon payable on a Tuition Certificate is irrevocably assigned by the Owner to MEFA and will not in any circumstances be available to the Owner.

Cash Payments Received by Owners of Tuition Certificates

The amount payable at maturity on a Tuition Certificate, equal to the Accreted Amount of the Tuition Certificate at the Standard Accrual Rate, will be deposited on the Maturity Date to the applicable Owner Account, unless it is transferred directly to a Participating Institution as directed by the Owner pursuant to the Enrollment Agreement. With respect to any portion of the initial Investment Amount of a Tuition Certificate not applied to Program Uses, the Owner will receive, after deduction of the Stabilization Fee assigned by the Owner to MEFA and upon compliance with the provisions of the Enrollment Agreement for the withdrawal thereof from the Owner Account, a portion of the interest paid on the Tuition Certificate equal to interest from the Issue Date until the Maturity Date at CPI flat. The amount available for withdrawal will not include the Current Coupon or any portion of the 2% in interest over CPI flat payable at maturity. See "CERTAIN INVESTMENT CONSIDERATIONS."

Transfer or Sale of the Tuition Certificates

Tuition Certificates are designed as long-term investments for purposes of financing college education at Participating Institutions and should not be purchased on behalf of Owners who anticipate a need to transfer or liquidate the investment prior to the Tuition Certificate's Maturity Date. The Tuition Certificates are not transferable except as provided in the Enrollment Agreement. Permissible transfers include transfers of ownership to the Qualifying Beneficiary (or to a custodian for the Qualifying Beneficiary) or to another individual with respect to whom the Tuition Certificate's Qualifying Beneficiary has been certified, to the satisfaction of MEFA, to be the transferee Owner's sibling or a lineal descendant of the transferee Owner or of the transferee Owner's sibling. See Section 4.05 of the Enrollment Agreement attached as Appendix A to the Offering Statement. In addition, the Owner may, at the time of purchase of a Tuition Certificate or thereafter, designate (or change the designation of) a Successor Owner, who will become the Owner of the Tuition Certificate and the rights of the Owner under the Enrollment Agreement in the event of the death of the designating Owner prior to use of the Tuition Certificate proceeds. See Section 4.06 of the Enrollment Agreement attached as Appendix A to the Offering Statement.

A limited amount of money may be available to MEFA in each year to purchase prior to maturity Tuition Certificates of Owners who establish financial hardship requiring early access to invested funds. An Early Withdrawal Fee may be payable in connection with any such sale prior to maturity. In addition, Owners who desire to sell their Tuition Certificates prior to maturity but who do not establish financial hardship may be able to sell their Tuition Certificates directly or transfer such Tuition Certificates through the Program. See Section 4.03 of the Enrollment Agreement attached as Appendix A to the Offering Statement. There can be no assurance, however, that the Owner of a Tuition Certificate will be able to sell the Tuition Certificate prior to maturity (whether or not such Owner establishes financial hardship), and, in the event of any such sale, such an Owner may realize a loss. Furthermore, in the event that the Owners of a substantial amount of Tuition Certificates seek to sell their Tuition Certificates in any particular year through the Program, the likelihood that the Program will be able to accommodate the request of any particular Owner will be decreased.

Tax Matters

Pursuant to federal regulations governing practitioners who render tax advice ("Circular 230") which may be applicable to certain of the information set forth in this section of this Offering Statement, please note that any tax advice contained in the following disclosure regarding the federal tax consequences of participation in the Program is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. Any such tax advice was written to support the promotion or marketing of the Program. A taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Income Tax Consequences

The Program is unique in its structure and therefore there is a lesser degree of certainty about its federal income tax consequences than is ordinarily the case for investments in Commonwealth bonds. However, subject to the qualifications discussed below, it is expected that income earned on a Tuition Certificate by the Owner of the Tuition Certificate will be excluded from gross income for purposes of federal personal income taxes, and will not be an item of tax preference for purposes of federal income taxes. It also is expected that the application of the principal of and interest on a Tuition Certificate to pay for educational services at a Participating Institution will not generate taxable income to the Owner or Qualifying Beneficiary, even if the value of the educational services received exceeds the amount paid in exchange for such services. Owners who transfer their ownership interest in Tuition Certificates prior to the Maturity Date thereof may be subject to income taxes on any capital gain realized as a result of such transfer.

The income tax consequences described above reflect the opinions expected to be delivered in connection with the issuance of the Bonds and the Tuition Certificates by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, which will serve as bond counsel in connection with the issuance of the Bonds and as special counsel in connection with the issuance of the Tuition Certificates. Delivery of such opinions is a condition to the issuance of the Bonds and the Tuition Certificates.

The Internal Revenue Service declined to provide a ruling on the federal income tax treatment of a prior version of the Program, and, because of such experience, no ruling has been requested or obtained from the Internal Revenue Service on the tax treatment of the Bonds, the Tuition Certificates and various other aspects of the Program. The opinions of counsel to be delivered in connection with the issuance of the Bonds and the Tuition Certificates will represent counsel's judgment that if the Internal Revenue Service were to challenge an Owner's position that no income tax is due and the matters were to be determined in judicial proceedings, under the law in effect on the date such opinions are delivered, it is more likely than not that these issues would be resolved as stated in the opinions. The delivery of such opinions does not constitute a guarantee as to the outcome if the Internal Revenue Service were to challenge an Owner's position or an assertion that there is no reasonable basis for the Internal Revenue Service to challenge the conclusions reached in the opinions, and such opinions reflect a lesser degree of certainty than is typical in connection with tax-exemption opinions delivered upon issuance of Commonwealth bonds. If the Internal Revenue Service were to challenge an Owner's position and prevail, the Owner could be subject to annual income taxes on (i) a portion of the accruing stated interest on the Tuition Certificates, (ii) a portion of the current interest assigned to MEFA and/or (iii) the difference between then-prevailing tuition costs at the Participating Institution attended by the Qualified Beneficiary and the dollar amount actually paid by the Owner or Qualified Beneficiary for the educational services purchased with the Tuition Certificate, in each case notwithstanding the lack of cash income on the Tuition Certificates to such Owner.

The opinion to the effect that payments made by the Commonwealth on the Bonds and Tuition Certificates are excluded from gross income for federal income tax purposes will be based principally on the treatment of such payments as interest on a Commonwealth bond. In the case of a Tuition Certificate, or any portion of a Tuition Certificate, used by the Owner to pay tuition costs at the Participating Institution attended by the Qualified Beneficiary, the opinion, with respect to the portion of the accruing stated interest on the Tuition Certificate which exceeds CPI, also will be based on the alternative treatment of such portion of the accruing stated interest as a tax-exempt qualified scholarship under current law. If current law with respect to the tax treatment of qualified scholarships were to change subsequent to the issuance of the Bonds and Tuition Certificates and prior to the use of the Tuition Certificate at a Participating Institution, it is possible that the portion of the accruing stated interest on the Tuition Certificate which exceeds CPI would constitute taxable income in whole or in part. In the case of a Tuition Certificate, or any portion of a Tuition Certificate, that is not used by the Owner to pay tuition costs at the Participating Institution attended by the Qualified Beneficiary, the opinion, with respect to the portion of the accruing stated interest on the Tuition Certificate which exceeds CPI, also will be based on the alternative treatment of such portion of the accruing stated interest as not constituting income of the Owner because such amount is assigned by the owner to MEFA as a condition to and at the time of the purchase of the applicable Tuition Certificate. Because the payment structure of such Bonds is unique to the Program, such opinion to the effect that payments made by the Commonwealth on the Bonds and Tuition Certificates are excluded from gross income for federal income tax purposes will be subject to the qualifications and lesser degree of certainty discussed in the preceding paragraph, which are not present in bond counsel opinions typically rendered in connection with the issuance of Commonwealth bonds and other tax-exempt municipal bonds.

As is the case with other bonds issued by the Commonwealth, the opinion as to tax treatment will be expressly conditioned upon compliance by the Commonwealth with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), which requirements must be satisfied after the date of issuance of the Bonds in order to assure that the interest on the Bonds and Tuition Certificates is and continues to be excludable from the gross income of the Owner. Failure to comply could cause the interest on the Bonds and Tuition Certificates to be included in the gross income of the Owner, retroactive to the date of issuance of the Bonds. In particular, and without limitation, those requirements include restrictions on the use, expenditure and investment by the Commonwealth of bond proceeds and the payment by the Commonwealth of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Commonwealth will provide covenants and certificates as to its continued compliance with such requirements.

Bond Counsel is of the opinion that interest or other income earned with respect to the Bonds and Tuition Certificates is exempt from Massachusetts personal income taxes, and that the Bonds and Tuition Certificates are exempt from Massachusetts personal property taxes. Bond counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective owners of Tuition Certificates should be aware, however, that the Bonds and Tuition Certificates and the interest or other income thereon are included in the measure of Massachusetts corporate excise and franchise taxes, and the Bonds and Tuition Certificates may be included in the measure of Massachusetts estate and inheritance taxes. Owners of Tuition Certificates who reside in states other than Massachusetts should consult their tax advisors as to the state income tax consequences of ownership of Tuition Certificates. In states other than Massachusetts, state income tax may be due on the accruing interest of CPI plus up to 2% and on the 0.5% semi-annual current interest.

For federal and Massachusetts tax purposes, interest on a Tuition Certificate includes original issue discount allocable to the Owner of such Tuition Certificate. Original issue discount with respect to a Tuition Certificate is equal to the difference between the Accreted Amount of a Tuition Certificate at the Standard Accrual Rate at maturity and the initial offering price of the Tuition Certificate to the public. Original issue discount accrues over the term of a Tuition Certificate, and therefore an Owner who acquires a Tuition Certificate when it is initially issued will have a basis approximately equal to the Accreted Amount of the Tuition Certificate at the Standard Accrual Rate as of the date of sale or other disposition of such Tuition Certificate for purposes of determining gain or loss on sale or other disposition. Owners should consult their tax advisors with respect to the computation of original issue discount on such accruals of interest during the period in which any Tuition Certificate is held.

Bond Counsel will not opine as to other federal tax consequences of owning the Tuition Certificates. However, prospective Owners of Tuition Certificates should be aware that section 86 of the Code requires recipients of certain Social Security and Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Tuition Certificate and that receipt of investment income, including interest on the Tuition Certificates, may disqualify the recipient thereof from obtaining the earned income credit under section 32(i) of the Code. In addition, if a Tuition Certificate is transferred to a corporation, interest on the Tuition Certificates may be taken into account under section 832(b)(5)(B)(i), section 884 and section 1375 of the Code. The amount of interest taken into account for such purposes would be greater than the cash payment received by the Owner after deduction of Assigned Payments. See "THE BONDS AND THE TUITION CERTIFICATES – Interest on the Bonds and Tuition Certificates."

The opinions described above relate only to income in connection with a Tuition Certificate. Any interest income received by a Purchaser on any portion of a Deposit refunded to a Purchaser may be subject to federal and state income taxes. Although MEFA in its discretion may invest amounts on deposit in the Owner Account in tax-exempt instruments, it may also invest such amounts in taxable instruments;

interest income received by an Owner on amounts deposited to the Owner Account on the Maturity Date or Early Tender Date until the date such amounts are applied or withdrawn by the Owner may be subject to federal and state income taxes in the year in which such interest is credited to the owner account. Applicable tax law requires that MEFA report such interest to the Owner annually, without regard to whether the interest is tax-exempt or taxable and without regard to whether such interest has been distributed to the Owner or retained in the Owner Account.

Gift Tax Consequences

The gift tax treatment of the Tuition Certificates will depend on whether the U.Plan is deemed a "qualified tuition program" under Section 529 of the Code. In general, Section 529 of the Code permits income tax deferral on investment earnings with respect to a qualifying prepaid tuition program or state tuition savings plan until such investment earnings are distributed to the contributor or the contributor's beneficiary. The income tax consequences of participation in the U.Plan (as described under "Income Tax Consequences" above) are not based on its qualification under Section 529, and, in the opinion of the Authority's special counsel, although the matter is not free from doubt, it is more likely than not that Section 529's gift tax provisions are inapplicable to the U.Plan. If the U.Plan is not treated as a "qualified tuition program" under Section 529, it is expected that, under current law, neither the designation by the Owner of a Qualifying Beneficiary nor the use of Tuition Certificates to make payments to a Participating Institution with respect to a Qualifying Beneficiary's tuition will subject the Owner to the federal gift tax.

Although the Authority does not believe that the Section 529 gift tax provisions are applicable to the U.Plan, because no definitive determination of the applicability of Section 529 to the U.Plan has been obtained, Owners should be aware that any contribution to a Section 529 "qualified tuition program" on behalf of any designated beneficiary is treated as a completed gift to such beneficiary as of the date of such contribution, and does not qualify for gift tax exclusion under Section 2503(e) of the Code, which excludes from gift tax amounts paid on behalf of an individual to an educational institution for the education or training of such individual. In general, gifts in calendar year 2010 of a present interest in property of value up to \$13,000 (which amount is subject to future adjustment for inflation) by a donor (\$26,000, subject to future adjustment for inflation, by a married couple filing a joint return and making a gift-splitting election) to any person are excludable from the federal gift tax. A donor currently has a \$1,000,000 lifetime exemption equivalent that may be applied to gifts in excess of the gift tax annual exclusion amounts referred to above. Under the Code provisions in effect as of March 15, 2010, the highest gift tax rate for taxable gifts in 2010 is 35%. Unless the provisions of current law are extended beyond 2010, the gift tax rates effective for the 2001 tax year, generally consisting of graduated rates from 37 percent to 55 percent, would be reinstated for tax years beginning in 2011.

Owners should consult their tax advisors with respect to the gift tax consequences of gifts of Tuition Certificates and/or the designation of a Qualifying Beneficiary or transfer of proceeds of a Tuition Certificate.

Impact of Certain Regulations and Proposed Regulations Governing Tax Opinion Practices

In June, 2005 the United States Treasury Department amended its "Circular 230" regulations governing the practice of tax advisers, including attorneys, before the Internal Revenue Service. Certain opinions to be rendered by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., as bond counsel and special counsel, including the opinion as to the potential alternative tax treatment of the portion of the accruing stated interest on Tuition Certificates that exceeds CPI as a tax-exempt qualified scholarship under current law, and opinions as to gift tax and income tax consequences of the use of Tuition Certificates to pay for educational services, may be subject to such regulations. Any such opinion will state clearly that the advice

included therein is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties, that the advice is being delivered to support the promotion or marketing of investment in the U.Plan, and that the investor should seek advice based on his or her particular circumstances from an independent tax advisor.

The Treasury Department has proposed separate amendments to the Circular 230 regulations with respect to state or local bond opinions, which opinions are not covered by the amendments that became effective in June, 2005. The proposed amendments (the "Proposed Amendments") are intended to require, among other items, the written identification by bond counsel to bond issuers of any "significant Federal tax issue" affecting bond counsel's opinion that income earned on a state or local bond will be excluded from gross income for purposes of federal personal income taxes. Under the Proposed Amendments, a tax issue is considered significant if the Internal Revenue Service has a reasonable basis for a successful challenge and its resolution could have a significant impact on the overall federal tax treatment of the matters addressed in the opinion. If the Proposed Amendments are finalized in their current form prior to the date of issuance of the Bonds and the related Tuition Certificates, bond counsel may be required to identify certain issues relating to its opinion that the income earned on a Tuition Certificate by the Owner of the Tuition Certificate will be excluded from gross income for purposes of federal personal income taxes as "significant Federal tax issues" for purposes of the requirements of Circular 230, as so amended, and/or may state that the advice included therein with respect to such issues is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties, that such advice is being delivered to support the promotion or marketing of investment in the U.Plan, and that the investor should seek advice based on his or her particular circumstances from an independent tax advisor. Although adoption of the Proposed Amendments in their current form may result in additional disclosure to The Commonwealth of Massachusetts, as issuer of the Bonds, and to MEFA about the tax matters described above, it is not expected to change any of the conclusions about tax treatment described above.

Allocation of Tuition Certificates; Deposit Refunds

MEFA will make every effort to ensure that every applicant for a Tuition Certificate receives a Tuition Certificate with the requested maturity date, but cannot assure that a Tuition Certificate will be available for the full amount deposited by each applicant. To date, since inception of the U.Plan program in 1995, MEFA has been able to accommodate demand for Tuition Certificates of each offered maturity in each year. The amount of Bonds of each maturity to be issued by the Commonwealth in 2010 and in subsequent years is and will be limited. If demand for Bonds of a specified maturity exceeds the available supply, Tuition Certificates will be allocated to applicants and the initial Investment Amount of each Tuition Certificate determined in accordance with allocation procedures established for the Program, which allocation procedures may be changed by MEFA from time to time. In addition, MEFA reserves the right to reduce the proposed Investment Amount upon a determination that such amount exceeds the amount necessary to provide for the qualified higher education expenses of the designated Qualifying Beneficiary. Applicants may cancel their commitment to purchase a Tuition Certificate by delivering written notice to MEFA no later than July 15, 2010, in which case the applicable Deposit will be refunded to such applicant, without interest.

Each applicant will be notified on or about September 1, 2010, or as soon thereafter as is practicable, as to the Investment Amount and maturity date of each Tuition Certificate allocated to such applicant. Deposits received by MEFA will be held in trust in a segregated account. Deposits will not be invested by MEFA other than in notes or bonds issued or guaranteed by the United States, investments fully collateralized by such securities, money market funds, or the Massachusetts Municipal Depository Trust, maturing no later than

the date such moneys are needed. If an applicant's Deposits exceed the aggregate Investment Amount of Tuition Certificates allocated to an applicant, the excess will be refunded to such applicant. The applicant will receive interest at the Refund Rate on the refunded amount for the period from the date on which the Deposit is received by MEFA until the date of the refund. The Refund Rate will equal the weighted average rate of return earned by MEFA on the Deposits during the period preceding the refund date, and will be a short-term taxable rate.

As soon as practicable after the end of the enrollment period, the Commonwealth is expected to execute a purchase contract with MEFA under which the Commonwealth will agree to issue the Bonds with interest accruing as of August 1, 2010. The Bonds may be issued on or about August 1, or, in certain circumstances, at a later date. Issuance of the Bonds will be contingent on the fulfillment of various conditions set forth in such purchase contract, including the delivery on the date of issuance of legal opinions as to the validity of the Bonds and the expected tax-exempt nature of the interest thereon. See "TAX MATTERS" herein. It is possible that events might preclude the Commonwealth from issuing the Bonds on a timely basis. In such event, no Bonds or Tuition Certificates would be issued in such year, and an amount at least equal to the Deposit would be refunded. Except as described in the preceding paragraph, no interest will be payable to the Purchaser or Owner for the period prior to the anticipated issuance date of the Bonds.

Fees

Although in certain prior years Purchasers of tuition certificates in the Program have been required to pay certain application and processing fees, MEFA has waived such fees with respect to purchases of Tuition Certificates to be issued in 2010.

The Enrollment Agreement provides that MEFA may charge the following fees: (i) a Family Transfer Fee in connection with any transfer of a Tuition Certificate pursuant to Section 4.05 of the Enrollment Agreement; (ii) a Transfer Fee in connection with any other transfer of ownership of a Tuition Certificate; (iii) a Change of Beneficiary Fee in connection with a change in the name of the Qualifying Beneficiary of a Tuition Certificate; (iv) an Early Withdrawal Fee in connection with a sale of a Tuition Certificate to the Authority prior to maturity; (v) an Additional Beneficiary Fee in connection with the Owner's designation of a Secondary Qualifying Beneficiary of a Tuition Certificate; and (vi) a Post Maturity Fee payable for each year after the Maturity Year in which Tuition Certificate proceeds remain on deposit in an Owner Account. Although MEFA currently is not assessing such fees in connection with the Program, it reserves the right to do so at a future date. If imposed, such fees are expected to be of modest amount and would be designed to reimburse MEFA for the costs of processing the transaction in question.

Security for the Bonds and Tuition Certificates

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. The Bonds do not represent obligations of MEFA, the Participating Institutions or any party other than the Commonwealth. None of MEFA, any Participating Institution or any party other than the Commonwealth is responsible for the timely payment by the Commonwealth of amounts due on the Bonds. Participating Institutions are not obligated to provide the Program benefits described herein and in the Enrollment Agreement if timely payment on the Bonds is not made by the Commonwealth or if for any other reason proceeds of Tuition Certificates are not delivered to the Participating Institutions as required under the Participation Agreements. The Commonwealth has no responsibility under the Program other than to pay the principal of and interest on the Bonds to the Program Custodian when due in accordance with the terms of the Bonds. As described below, the Program Custodian is responsible for the transfer to or for the benefit of the Owners of Tuition Certificates of payments made by the Commonwealth on the Bonds.

The Commonwealth will undertake to file with the Electronic Municipal Market Access system maintained by the Municipal Securities Rulemaking Board its annual reports and notices of certain events relating to the Commonwealth's financial condition. A description of this undertaking is set forth in the most recent official statement of The Commonwealth of Massachusetts, which is incorporated herein by reference. A copy of such official statement may be obtained by calling 1-800-449-MEFA.

The Tuition Certificates represent fractional beneficial ownership interests in Bonds of a specified maturity. The Program Custodian selected by MEFA will hold the Bonds and maintain a register of the Owners of the Tuition Certificates, in reliance on information provided by the Program Recordkeeper. The Program Custodian will receive payments made by the Commonwealth on the Bonds and will be responsible for transferring payments to the Owners of Tuition Certificates by transferring such payments to the applicable Owner Account. The Commonwealth will not have any responsibility or obligation to the Owners, Qualifying Beneficiaries or Participating Institutions with respect to the accuracy of any records maintained by the Program Custodian or the Program Recordkeeper, the payment by the Program Custodian of, or the providing of notice to, the Owners, Qualifying Beneficiaries or Participating Institutions, or with respect to any other action taken by the Program Custodian, Program Recordkeeper or MEFA, or assuming payment on the Bonds when due, for delivery of the proceeds of Tuition Certificates to the Participating Institutions as required by the Participation Agreements. The Participating Institutions will not have any responsibility or obligation to the Owners or Qualifying Beneficiaries with respect to the accuracy of any records maintained by the Program Custodian or the Program Recordkeeper, the payment by the Program Custodian of, or the providing of notice to, the Owners or Qualifying Beneficiaries, or with respect to any other action taken by the Program Custodian, Program Recordkeeper or MEFA, or for delivery of the proceeds of Tuition Certificates to the Participating Institutions as required by the Participation Agreements. The Tuition Certificates are payable solely from payments on the Bonds received by the Program Custodian. Any obligations undertaken by MEFA under the Enrollment Agreement are limited obligations of MEFA payable only from revenues generated by the Program and available to MEFA.

No rating has been applied for on the Bonds and no application for a rating is currently contemplated.

The Program Record Keeper

MEFA has served as Program Recordkeeper for the U. Plan since February, 1999. During the term of the Tuition Certificates, MEFA from time to time may transfer all or certain aspects of the recordkeeping function to one or more third-party contractors, and may resume direct maintenance of such recordkeeping functions upon termination of such contracts. The Program Recordkeeper's functions include the transfer of records contained in Purchase Request Forms; the maintenance of records regarding Owners and Qualifying Beneficiaries during the term of the contract, the calculation of Educational Services Percentages for each Tuition Schedule; the calculation of Tuition Certificate allocations; the calculation of refunds due to applicants for over-subscribed maturities of the Bonds; the generation of annual statements to Owners as to the amount of Tuition Certificates held by the applicable Owner; the generation of annual statements as to the Educational Services Percentages available for beneficiaries at Participating Institutions; and the response to inquiries by Owners and MEFA.

Certain Investment Considerations

Alternative Savings and Investment Products

By purchasing Tuition Certificates and participating in the U. Plan, Owners can ensure, if the Tuition Certificates are applied to Program Uses, that the amount invested in a Tuition Certificate will maintain its purchasing power relative to the cost of Educational Services at Participating Institutions. However, a variety of other savings and

investment products are available to parents and other persons who wish to provide for the future payment of tuition and other higher education costs for their children or other beneficiaries. There are substantial differences in the structure, benefits, risks and liquidity provided by each such program, and the appropriateness of any such program, and the relative benefits of participating in any particular program, may depend on the program, the individual, the timeframe and other factors. No assurance can be provided that the performance of the U. Plan and the Tuition Certificates in general or for any specific Owner or Qualifying Beneficiary will compare favorably with existing alternative savings and investment products or ones that may be developed in the future.

In particular, the provisions of Section 529 of the Internal Revenue Code of 1986, as amended, permit the establishment of state-sponsored prepaid tuition plans and state-sponsored savings plans for higher education expenses ("qualified tuition programs") that are eligible for tax-favored treatment, specifically the deferral of federal income taxes until distributions are made from such programs to the contributor or designated beneficiary. Distributions from qualified tuition programs which are applied to pay a beneficiary's qualified higher education expenses are tax-exempt. Most states, including Massachusetts, have developed programs that are designed to qualify for such tax-advantaged status. Certain Section 529 savings programs, including the U. Fund program launched by MEFA in March, 1999, are invested in investments that may be less secure than the Commonwealth general obligation bonds that back the Tuition Certificates, and which may provide a more volatile, but potentially higher, investment return over certain time periods than an investment in Tuition Certificates. Certain of such savings programs (including the U. Fund) also permit use of accrued savings at any qualifying higher education institution in the applicable state or nationwide without penalty, in contrast to the U. Plan's differentiation between use of Tuition Certificate proceeds at Participating Institutions in Massachusetts and use of such proceeds elsewhere. Certain of such Section 529 programs (including the U. Fund) also permit savings for a portion of room and board expenses, unlike the U. Plan, which is designed to promote savings for tuition and mandatory fees, and may have more flexible provisions for withdrawals of contributions for other uses (subject to a penalty, except in certain cases). In addition, certain amounts invested in such Section 529 programs qualify for certain special protections from creditors under federal bankruptcy law. However, such Section 529 programs (including the U. Fund) generally do not provide the tuition "lock-in" features that the U. Plan provides at Participating Institutions, and, unlike the U. Plan, distributions from such Section 529 programs, under current law, will be fully taxable to the distributee at the time of distribution for federal income tax purposes unless applied to qualified higher education expenses.

Pursuant to amendments to the Code that became effective in 2002, public and private higher education institutions, acting singly or jointly with other higher education institutions, may establish tuition credit or tuition certificate programs that operate as prepaid tuition programs and that are-eligible for tax-favored treatment as described above under Section 529 of the Code. Such programs may be established from time to time and may offer tuition "lock-in" features similar to those offered by the U. Plan at certain public and/or private colleges and universities outside Massachusetts and/or at certain colleges and universities within Massachusetts. For example, the Tuition Plan Consortium, a non-profit organization, launched the "Independent 529 Plan", a nationwide prepaid tuition program involving certain private colleges, in 2003. Some of the private colleges and universities participating in the U. Plan also participate in the Independent 529 Plan.

The selection of participating higher education institutions, the investment risks involved, the financial benefits to participants, the liquidity of the investment and the federal and state income, gift and estate tax treatment of interests in such programs, among other features, may differ from those applicable to participation in the U. Plan.

In addition, the provisions of Section 530 of the Code permit annual contributions of up to \$2000 (depending on the contributor's modified adjusted gross income) to a Coverdell education savings account ("Coverdell account") for a designated beneficiary, which account may be invested as determined by the contributor. The investment earnings on investments in a Coverdell account are tax-deferred until distribution and tax-exempt if applied to the designated beneficiary's qualified higher education expenses or to qualified primary and secondary education expenses at any eligible educational institution. Amounts so invested may be withdrawn at any time, but are subject to income tax and, subject to certain exceptions, an additional 10% penalty upon withdrawal if not applied to the beneficiary's qualified higher education expenses or qualified primary and secondary education expenses.

Because the U. Plan requires a long-term commitment of contributions, potential Purchasers should carefully evaluate the different features of the U. Plan and other college savings alternatives, including Section 529 programs (such as the U. Fund and prepaid tuition programs) and Coverdell accounts, in deciding whether to invest in the U. Plan.

MEFA's U. Fund Program

In March, 1999, MEFA launched a college savings program, called the U. Fund, which is designed to qualify as a qualified state tuition program under Section 529 of the Code, as described above. Unlike the U. Plan, the U. Fund does not guarantee a particular percentage of tuition at participating Massachusetts institutions, but participants are able to apply amounts contributed to the U. Fund, together with investment earnings thereon, to pay tuition and, subject to certain limitations, room and board, at qualifying educational institutions nationwide. The U. Fund is invested in asset allocation portfolios allocated among domestic and international equity mutual funds, bond mutual funds and money market funds. As a general matter, the investment assets in the U. Fund are less conservative than the Commonwealth general obligation bonds that back the U. Plan's Tuition Certificates; the U. Fund is also a more liquid investment than the U. Plan, although (under current law) withdrawals from the U. Fund, if made for purposes other than the payment of the designated beneficiary's qualified higher education expenses, are subject to income tax on the withdrawn earnings and, subject to certain exceptions, to a 10% surtax. As noted above, certain amounts invested under the U. Fund are protected from creditors in the event of a bankruptcy by the account owner; amounts invested under the U. Plan may not qualify for such protections. The U. Plan and the U. Fund present distinctive approaches to saving for a beneficiary's higher education, and any potential Purchaser should carefully evaluate which approach or combination of approaches to higher education savings is appropriate in light of such potential Purchaser's objectives and circumstances. Information about the U. Fund may be obtained by telephone call to (800) 544-2776.

Return on Tuition Certificates Not Applied to Program Uses

In the event an Owner is unable to apply the proceeds of a Tuition Certificate to Program Uses, the Owner will receive, after deduction of the Stabilization Fee, the original Investment Amount plus interest calculated on such amount at CPI flat. CPI is an index that measures the price changes from year to year of a particular basket of goods and services. No assurance can be provided that the United States Department of Labor, which publishes the index, will continue to use the same basket of goods and services. From time to time proposals are made and/or adopted, the effect of which may be to adjust the basket of goods and services and computation methodology used to determine CPI in a manner which may reduce the rate of increase of the CPI. It is unknown whether any such adjustments will be implemented during the term of the Tuition Certificates or, if adjustments are implemented, what their effect will be on the amount of interest paid on Tuition Certificates. However, any such adjustments would not affect the percentages of Tuition at each Participating Institution to which a Qualifying Beneficiary will be entitled.

Inability to Use Tuition Certificate in Maturity Year

In order to exercise the option of applying the Tuition Certificate to Program Uses in an academic year after the maturity year, the Owner will be required to maintain the payment received at maturity on the Tuition Certificate in an Owner Account until the money is applied to Program Uses. Although the Owner will receive interest during such post-maturity period at what is expected to be a short-term taxable or tax-exempt rate, such interest may be less than the investment return the Owner would receive during such period in another savings or investment vehicle and will be further reduced by the Post Maturity Fee.

Lack of Liquidity

Because of their limited market and unique features, Tuition Certificates are substantially less transferable and liquid than various alternative investment vehicles, and an Owner may be unable to sell a Tuition Certificate prior to maturity or may be unable to sell without incurring a loss.

Use of Tuition Certificates

By participating in the Program, a Participating Institution agrees in advance that the Tuition it may charge in a Qualifying Year to a Qualifying Beneficiary for the portion of Educational Services covered by a Tuition Certificate will equal the proceeds of the Tuition Certificate (i.e., the Investment Amount plus interest from the date of purchase until the Maturity Date or Early Tender Date at an annually compounded rate equal to the increase in CPI plus 200 basis points). However, participation in the Program: has no effect on Tuition charged by a Participating Institution (i) to students who do not present Tuition Certificates, (ii) for Educational Services in excess of the portions of Educational Services covered by a Tuition Certificate, or (iii) to students who present Tuition Certificates in a year other than a Qualifying Year or Post Maturity Year; has no effect on amounts charged by Participating Institutions for room and board and other charges not constituting Tuition, or on amounts charged by institutions that are not Participating Institutions; does not constitute a guarantee that the Tuition charged to a Qualifying Beneficiary in a Qualifying Year for the portion of Educational Services covered by a Tuition Certificate will be less, or will not be more, than the Tuition that would be charged if such Qualifying Beneficiary were not using a Tuition Certificate; for certain periods of time in which the Program has been in effect, tuition and mandatory fees at certain public Participating Institutions have decreased, rather than increased does not guarantee, or in any way facilitate, admission of a student to a Participating Institution.

Financial Aid Implications

Prepaid tuition programs, including the U. Plan, are treated like other forms of nonretirement savings, with the exception that under current law the value of a prepaid tuition certificate owned by a dependent student or in a custodial account for a dependent student is not considered a student asset for purposes of determining the student's eligibility for federal financial aid and is treated as a parent asset. If a prepaid tuition certificate is owned by a financial aid applicant's parent (or treated as owned by the applicant's parent in the case of a certificate owned by a dependent student or in a custodial account for a dependent student), under current law as a parental asset a maximum of 5.64% of the value of a prepaid tuition certificate would be taken into account for purposes of federal financial aid eligibility. Parental assets generally have a lesser impact than student assets (which are generally taken into account at 20% of their value) for purposes of determining federal financial aid eligibility. A prepaid tuition certificate that is not owned by a parent or student generally is not considered in the student's need analysis for federal financial aid purposes.

Continuing Participation by Participating Institutions

The Participation Agreements executed by Participating Institutions identified as such in the enrollment materials require such Participating Institutions to accept and credit Tuition Certificates as described herein and in the Enrollment Agreement. Additional Participating

Institutions may elect to participate in the U.Plan in the future but in order to do so they must agree to honor all Tuition Certificates issued during the Program year in which they join and all prior years. However, each Participating Institution, upon prior notice to MEFA, may cease to participate in the U.Plan with regard to tuition certificates issued in future years. Accordingly, no assurance can be given at this time that Owners of tuition certificates purchased in future years will be able to apply such future tuition certificates for Program Uses at each of the currently identified Participating Institutions. In addition, it is possible that one or more of the Participating Institutions may dissolve, merge into another entity or otherwise cease operations before a Tuition Certificate matures, and that a Qualifying Beneficiary would be unable to apply such Tuition Certificate at any such Participating Institution.

Owner Account

An Owner Account will be established in the name of each Owner on or before the Maturity Date or Early Tender Date of a Tuition Certificate. At MEFA's election, the Owner Account may be established as a book entry in the Owner's name within an account established by MEFA to hold proceeds of matured Tuition Certificates, or in a segregated account maintained directly in the Owner's name. Except as otherwise provided in the Enrollment Agreement, confirmation by MEFA of amounts to be withdrawn or transferred from the Owner Account will be required prior to any such withdrawal or transfer. The Program Account Institution at which Owner Accounts will be held will be selected by MEFA and may be changed from time to time by MEFA. Amounts in an Owner Account will be invested in bank deposits, notes or bonds issued or guaranteed by the United States, investments fully collateralized by such securities, taxable or tax-exempt money market funds, or the Massachusetts Municipal

Depository Trust, maturing or available no later than the date such money is expected to be applied under this Enrollment Agreement. Amounts in an Owner Account will earn interest (which may be taxable) at a short-term interest rate based on the earnings realized through investment of such amounts. Interest on amounts held in an Owner Account will be paid to the Owner upon the Owner's withdrawal of amounts on deposit in the Owner Account. Applicable tax law requires that MEFA report such interest to the Owner annually, without regard to whether the interest is tax-exempt or taxable and without regard to whether such interest has been distributed to the Owner or retained in the Owner Account. During each year after the year of maturity in which the Owner Account is open, a Post Maturity Fee may be assessed to the Owner and may be deducted from the interest payable to the Owner. In order to secure payment of fees due under the Enrollment Agreement, the moneys on deposit in the Owner Account will be subject to MEFA's security interest, and MEFA may withdraw when due an amount equal to the Stabilization Fee and any applicable Change of Beneficiary Fee, Additional Beneficiary Fee or Post Maturity Fee. The Owner Account relating to a Tuition Certificate will be closed after all amounts therein have been applied or withdrawn or, if earlier, after the beginning of the sixth academic year following the academic year that begins in the maturity year of the Tuition Certificate, and the appropriate portion of any balance remaining in such Owner Account at the time it is closed will be paid over to the Owner as though the Owner had made a withdrawal for a purpose other than Program Uses. Under current escheat laws, MEFA or the Program Account Institution may require confirmation from the Owner of the active status of the Owner Account every 3 years, and, if such confirmation is not obtained, amounts on deposit in an Owner Account may escheat to the Commonwealth.

Appendix A Enrollment Agreement (Terms and Conditions of Participation in the U.Plan Program)

SECTION I - INTRODUCTION AND PROGRAM

Description

This Enrollment Agreement contains the basic terms and conditions of The U.Plan: The Massachusetts Prepaid Tuition Program (the "Program"), and the obligations and responsibilities of the Purchaser, the Owner and the Massachusetts Educational Financing Authority ("MEFA") in connection with the Purchaser's and Owner's participation in the Program. Capitalized terms used in this Enrollment Agreement are defined herein or in the Definitions Section which is at the end of the Enrollment Agreement.

BY SIGNING A PURCHASE REQUEST FORM, YOU AGREE TO BE SUBJECT TO THE TERMS AND CONDITIONS OF THIS ENROLLMENT AGREEMENT. BY ACCEPTING A PURCHASE REQUEST FORM, MEFA AGREES TO BE SUBJECT TO THE TERMS AND CONDITIONS OF THIS ENROLLMENT AGREEMENT.

This Enrollment Agreement, together with the Purchase Request Form completed by you, form the Contract between MEFA and you. It sets forth the rights, responsibilities and duties which you and MEFA each have regarding the money which you deposit with MEFA for the purchase of a Tuition Certificate. It also sets forth the rights, responsibilities and duties which you and MEFA each have in connection with each Tuition Certificate you receive, including rights, responsibilities and duties relating to payments made on each Tuition Certificate.

The Program Description and Offering Statement (the "Offering Statement") to which this Enrollment Agreement is attached provides a description of the U.Plan and how it works, and important information about your rights, responsibilities and duties and those of MEFA and other participants in the Program. You should read the Offering Statement before you read this Enrollment Agreement; a general understanding of how the U.Plan works will be helpful to you in understanding the provisions and technicalities of this Enrollment Agreement. The Offering Statement also contains information about how to obtain a separate Information Statement containing financial and other information about the Commonwealth.

The Contract is subject to such rules and procedures (the "Rules") as may be adopted by MEFA, which Rules may be revised from time to time by MEFA, provided that the Rules and any changes to the Rules will not materially impair the benefits you will receive under the Program, or materially change your obligations under the Contract.

SECTION II - TUITION CERTIFICATE

Purchases

Section 2.01.

Purchaser's Commitment to Purchase Tuition Certificate

The Purchaser will pay to MEFA, at the time each Purchase Request Form is submitted, the Deposit for each Tuition Certificate that the Purchaser intends to buy in the current Enrollment Period. In the Purchase Request Form, the Purchaser will designate for each Tuition Certificate to be purchased: (1) the Investment Amount desired and (2) the Maturity Date. By delivering the Purchase Request Form and Deposit, the Purchaser makes a non-cancelable commitment to buy Tuition Certificates with the specified Maturity Dates and in the designated Investment Amounts or in such lesser Investment Amounts as can be allocated in response to such Purchase Request Form pursuant to Section 2.03. Such commitment will be non-cancelable after July 15, 2010. The Purchaser may cancel the commitment to purchase a Tuition Certificate by delivering written notice to MEFA no later than July 15, 2010, in which case such Deposit will be refunded to the Purchaser without interest.

Section 2.02.

Purchaser's Deposit

(a) MEFA will keep the entire Deposit until it determines under Section 2.03 whether, in light of the aggregate demand for Tuition Certificates of the requested maturity or maturities, the Deposit exceeds the amount that can be invested in the requested Tuition Certificates. For the 2010 Enrollment Period, such determination will be made on or about July 15, 2010, or as soon thereafter as possible. If MEFA determines that due to oversubscription a portion of the Deposit cannot be applied to the purchase of the requested Tuition Certificates, MEFA will refund to the Purchaser such portion of the Deposit, together with interest on such portion at a rate equal to the Refund Rate for the period of time the refunded portion of the Deposit was held by MEFA.

(b) MEFA will keep the Deposit, less any portion refunded under the prior paragraph, until the earlier of (1) the date the Bonds are issued and the Deposit is applied to the purchase of the Tuition Certificates requested by the Purchaser (which is expected to be on or about August 1, 2010 for 2010 Tuition Certificates, but which may be a later date under certain circumstances) and (2) the date, if any, on which MEFA is informed that Bonds in the requested maturity or maturities will not be issued during the Applicable Issuance Period. If an event described in clause (2) occurs, MEFA will refund to the Purchaser as promptly as practicable any portion of the Deposit that cannot be applied to the purchase of the requested Tuition Certificates.

(c) Except in the case of refunds described in Section 2.02(a), the Purchaser will not be entitled to receive any interest on any portion of the Deposit. Tuition Certificates will not begin to accrue interest until they are issued, and, upon issuance, will accrue interest from the date they are issued (if the Tuition Certificates are issued on August 1) or from the preceding August 1 (if the Tuition Certificates are issued on a date other than August 1).

(d) MEFA will place the Deposit in an account dedicated to the holding of Program deposits, to be applied only as provided in this Enrollment Agreement. MEFA will not invest such money other than in notes or bonds issued or guaranteed by the United States, investments fully collateralized by such securities, money market funds, or the Massachusetts Municipal Depository Trust, maturing no later than the date such money is to be applied under this Enrollment Agreement.

(e) A portion of the Deposit used to purchase a Tuition Certificate may be applied upon issuance of the Bonds to pay allocable issuance costs of the Bonds on behalf of the Commonwealth. This will not affect or reduce the Investment Amount of any Tuition Certificate received by the Purchaser or any refund to which the Purchaser is entitled.

Section 2.03.

Investment Amount of Tuition Certificates

If the demand for Tuition Certificates of a particular Maturity Date exceeds the amount of Commonwealth College Opportunity Bonds with such Maturity Date to be issued during the Applicable Issuance Period, the Investment Amount of each Tuition Certificate of such maturity received by the Owner will be allocated according to methods and priorities developed by MEFA. By specifying a proposed Investment Amount for a Tuition Certificate in a Purchase Request Form, the Purchaser agrees that the Deposit made with respect to such Tuition Certificate may be applied to the purchase of a Tuition Certificate of the designated Maturity Date in such Investment Amount or in such lower Investment Amount as may be allocated to the Owner by MEFA. Other than as described above, there is no limit on the Investment Amount of any Tuition Certificate.

Section 2.04.

Certificates Maintained in Book-Entry Form; Annual Statements

Tuition Certificates will be issued and maintained in book-entry form, and the Owner will not receive physical certificates. A statement evidencing the issuance and ownership of each Tuition Certificate, and the percentages recorded on each Tuition Schedule, will be delivered to the Owner by the Program Recordkeeper as soon as possible after the Issue Date of the Related Program Bonds, and annually thereafter. From time to time the Tuition Schedule may be amended to reflect the participation in the Program of additional Participating Institutions and the applicable Educational Services Percentages, and such amendment will be reflected on the next statement sent to the Owner.

Section 2.05.

Interest Rates on Tuition Certificates

This section sets forth technical information about the interest rates payable on the Tuition Certificates. Please note, however, that, as described in Section VI, the Owner is required to assign to MEFA certain portions of the interest received on each Tuition Certificate (the Assigned Payments). After deduction of such Assigned Payments, the amount of interest that the Owner will obtain on any portion of the money invested in a Tuition Certificate that is not applied to Program Uses is a variable rate equal to the annual increase in the Consumer Price Index - All Urban Consumers, All Items ("CPI flat") from the Issue Date until the Maturity Date of the Tuition Certificate, compounded as of each August 1.

Each Tuition Certificate delivered to an Owner will bear interest as follows: (1) interest on the Investment Amount at an annual rate determined by the Commonwealth prior to issuance of the Bonds (which is expected to be 50 basis points for Tuition Certificates issued in 2010), payable on each August 1 and February 1 (the "Current Coupon"), which interest is assigned to MEFA under Section VI of the Enrollment Agreement; and (2) interest on the Accreted Amount at an annual rate equal to the Standard Accrual Rate, payable on the Maturity Date (the "Maturity Coupon").

SECTION III - CONTRACT BENEFITS

Section 3.01.

Use of Tuition Certificate in Maturity Year

The Owner must designate a Qualifying Beneficiary for each Tuition Certificate purchased. A Qualifying Beneficiary who is a Student will be entitled to receive the Designated Portion of the Allocable Educational Services at any Participating Institution in any Maturity Year, upon payment to the Participating Institution of the Tuition Certificate Proceeds. To receive such Allocable Educational Services, an Owner must notify MEFA at least 30 days before the Tuition Payment Date on which the Owner desires to apply the Tuition Certificate Proceeds and must specify the Participating Institution at which such Tuition Certificate Proceeds are to be applied and the Designated Portion of the Allocable Educational Services to be purchased. Upon receipt of such notice and confirmation of the amount payable to the Participating Institution, MEFA will authorize payment of the Maturity Proceeds from the Owner Account to the Participating Institution on or before the applicable Tuition Payment Date, as provided in Section V of the Enrollment Agreement, or, if feasible, will transfer the Maturity Proceeds on behalf of the Owner directly to the Participating Institution.

Section 3.02.

Use of Tuition Certificate Before Maturity Year

If the Owner of a Tuition Certificate wants to apply Tuition Certificate Proceeds for a Qualifying Beneficiary at a Participating Institution during a Qualifying Year other than the Maturity Year, the Owner must notify MEFA at least 30 days before the Tuition Payment Date on which the Owner wants to apply the Tuition Certificate Proceeds and must specify the Participating Institution at which such Tuition Certificate Proceeds are to be applied and the Designated Portion of the

Allocable Educational Services to be purchased. Subject to the existence of Program moneys available for this purpose, as determined by MEFA in its discretion, MEFA will purchase the designated Tuition Certificate on the applicable Early Tender Date at a price equal to the Early Tender Price. No assurance can be given that MEFA will purchase the Tuition Certificate prior to maturity. If MEFA determines that moneys are not available to purchase the Tuition Certificate on an Early Tender Date, the Owner will not be able to apply the Tuition Certificate to purchase Allocable Educational Services in such Qualifying Year. If MEFA does purchase, or cause to be purchased, the Tuition Certificate on the Early Tender Date, a Qualifying Beneficiary who is a Student will be entitled to receive the Designated Portion of the Allocable Educational Services at any Participating Institution in such Qualifying Year, upon payment to the Participating Institution of the Pre-Maturity Proceeds. MEFA will deposit, or cause to be deposited, the Early Tender Price to the Owner Account and upon confirmation of the amount payable will authorize payment of the Pre-Maturity Proceeds to the Participating Institution designated by the Owner on or before the applicable Tuition Payment Date, as provided in Section V of the Enrollment Agreement, or, if feasible, will transfer the Early Tender Price on behalf of the Owner directly to the Participating Institution.

Section 3.03.

Use of Tuition Certificate After Maturity Year

Each Tuition Certificate will entitle a Qualifying Beneficiary who is a Student to receive from any Participating Institution in any Post Maturity Year, upon payment to the Participating Institution of Post Maturity Proceeds, a percentage of Educational Services equal to the Post Maturity Educational Services Percentage. An Owner must notify MEFA at least 30 days before the Tuition Payment Date on which the Owner desires to apply the Post Maturity Proceeds and must specify the Participating Institution at which such Post Maturity Proceeds are to be applied and, if less than the entire Post Maturity Proceeds are to be applied to obtain Educational Services at a Participating Institution, the portion of Post Maturity Proceeds to be so applied. Upon receipt of such notice and confirmation of the amount payable, MEFA will authorize payment of any portion of the requested amount of Post Maturity Proceeds from the Owner Account to the Participating Institution on or before the applicable Tuition Payment Date, as provided in Section V of the Enrollment Agreement.

Section 3.04.

Remaining Tuition Charges Unaffected

Nothing in the Contract affects or limits the Tuition charged by a Participating Institution for any portion of Educational Services not paid for with a Tuition Certificate.

Section 3.05.

Refunds of Tuition Paid for with Tuition Certificates

If a Qualifying Beneficiary becomes entitled to a refund of all or any portion of Tuition paid to such Participating Institution in a year for which such Participating Institution has accepted Tuition Certificate Proceeds or Post Maturity Proceeds for such Qualifying Beneficiary, the Participating Institution will refund to or as instructed by MEFA a portion of the Tuition refund due to the Student under the Participating Institution's refund procedures that is proportionate to the percentage of Educational Services provided by the Institution in exchange for Tuition Certificate Proceeds or Post Maturity Proceeds. If the Owner notifies MEFA within 30 days after such refunded amount is paid to MEFA that the Owner can apply all or a portion of the refunded amount as a payment or prepayment of Educational Services for a Qualifying Beneficiary or Secondary Qualifying Beneficiary at a Participating Institution, MEFA will pay all or a portion of the refunded amount to the Participating Institution so designated. If the Owner does not so notify MEFA or if the Owner designates only a portion of the refunded amount to be used at a Participating Institution, MEFA will pay the remaining portion of the refunded amount to the Owner after deducting the Stabilization Fee.

Section 3.06.

Representation as to Qualifying Beneficiary Status

Each designation by an Owner of a Qualifying Beneficiary will constitute a representation by such Owner that the individual so designated is a Qualifying Beneficiary.

SECTION IV - TRANSFER OF TUITION

Certificates; Qualifying Beneficiaries

Section 4.01.

Transfer of Tuition Certificates

The Owner shall not transfer Tuition Certificates or redesignate a Qualifying Beneficiary except as permitted under this Section IV.

Section 4.02.

Restrictions on Assignment or Transfer by Owner

Except as expressly provided in the Contract, neither the Tuition Certificates nor any interest, rights or benefits under the Contract or the Tuition Certificates may be transferred or assigned by an Owner. Neither MEFA nor the Commonwealth is obligated to purchase a Tuition Certificate before it matures, and because of the unique features of the Tuition Certificate and the transfer restrictions imposed under this Enrollment Agreement, you, the Owner, may be unable to sell or otherwise transfer title to the Tuition Certificate before it matures.

Section 4.03.

Sale or Transfer of Tuition Certificates

(a) The Owner may sell or transfer the Tuition Certificate to any person located by the Owner at whatever price is agreed to by the Owner and such purchaser, but (except in the case of transfers under Section 4.03(c), 4.05 or 4.06) such transferee no longer will be entitled to special benefits at Participating Institutions (that is, such transferee will not be entitled to the Program benefits described in Sections 3.01, 3.02 or 3.03 of the Enrollment Agreement.) Such transferee will be entitled to receive on the Maturity Date the Owner Balance, which is the amount payable on the Tuition Certificate less the Stabilization Fee, and equals the initial Investment Amount of the Tuition Certificate plus interest at CPI flat. As a condition to such transfer, the transferee will be required to assign an amount equal to the Stabilization Fee to MEFA and to authorize the transfer of the Stabilization Fee from the Owner Account to MEFA on the Maturity Date. As a further condition to such transfer, the Owner will sign an assignment of the Tuition Certificate. MEFA may impose a Transfer Fee payable by the transferring Owner in connection with any such transfer.

(b) If an Owner experiences extraordinary circumstances which require such Owner to have access to the moneys invested in a Tuition Certificate prior to the Maturity Date of such Tuition Certificate, such Owner may request a financial hardship withdrawal by notifying MEFA. No assurance can be given that any such request will be honored, and neither the Commonwealth nor MEFA are under any obligation to make funds available for such purpose or otherwise facilitate such hardship withdrawal.

If MEFA in its discretion elects to purchase such Tuition Certificate, such purchase will be at a price equal to the Accreted Amount of the Tuition Certificate on the August 1 preceding such withdrawal, less the Stabilization Fee, less an Early Withdrawal Fee that MEFA may impose to cover the costs of such transaction. The effect of the previous sentence is that the Owner will receive the Investment Amount of such Tuition Certificate plus interest until the August 1 preceding the withdrawal date at CPI flat, minus any Early Withdrawal Fee. Any such purchase will occur as soon after August 1 of the withdrawal year as is practicable.

(c) As an alternative to a sale under clause (a) or clause (b), the Owner may notify MEFA of the availability of the Owner's Tuition Certificate for resale through the Program on the next August 1, or

any other date on which such resale may be feasible. MEFA, if so notified, in its discretion may seek to allocate or cause the Tuition Certificate to be allocated to an applicant for a Tuition Certificate, but will not be obligated to do so and may be unable to do so. If the Tuition Certificate is allocated to a new buyer, MEFA or the Agent will provide for a direct transfer of ownership from the Owner to the buyer. The Program Custodian will register a transfer of the Tuition Certificate from the Owner to the transferee. The price at which a Tuition Certificate will be purchased from the Owner will be the Accreted Amount of such Tuition Certificate on the Pre-Transfer Accretion Date at the Standard Accrual Rate. A Stabilization Fee (measured as of the Pre-Transfer Accretion Date) will be payable to MEFA as provided in Section 5.03 of the Enrollment Agreement and will be deducted from the purchase price paid to the Owner. The effect of the prior two sentences is that, if the Owner is able to sell the Tuition Certificate under the provisions of this paragraph, after deduction of the portion of the payment that the Owner has assigned to MEFA, the cash amount the Owner will obtain will be the initial Investment Amount of the Tuition Certificate plus interest at CPI flat until the August 1 preceding the Transfer Date or, if the Transfer Date is August 1, such Transfer Date. In connection with any such transfer, a Transfer Fee may be imposed in an amount sufficient to cover costs of processing such transfer. The Transfer Fee may be deducted from the amount paid to the Owner. As a condition to the sale and transfer of the Tuition Certificate, the Owner will assign to the transferee all of the Owner's rights and obligations under the Contract. If the Transfer Date is not an August 1, any transferee may be required to pay or assign to MEFA the interest accrued on the Tuition Certificate from the Pre-Transfer Accretion Date to the Transfer Date.

Section 4.04.

Changes in Qualifying Beneficiary; Additional Qualifying Beneficiary

The Owner may, upon payment of a Change of Beneficiary Fee, change the Qualifying Beneficiary of a Tuition Certificate from time to time by providing written notice to MEFA, together with a satisfactory representation to MEFA that the substitute Qualifying Beneficiary is a Qualifying Beneficiary Relative. When the proceeds of a Tuition Certificate are applied to Program Uses for the benefit of a designated Qualifying Beneficiary, any Excess Proceeds will be applied solely as provided in Section 5.04 of the Enrollment Agreement. Proceeds of a Tuition Certificate shall be applied for the benefit of no more than two Qualifying Beneficiaries.

Section 4.05.

Transfer of Tuition Certificate to Qualifying Beneficiary or Relative

The Owner may transfer ownership of a Tuition Certificate to a Qualifying Beneficiary at any time without restriction, provided that if the Qualifying Beneficiary is a minor, ownership shall be transferred to a custodian for such minor named in compliance with the Uniform Gifts to Minors Act or Uniform Transfers to Minors Act or similar laws, as applicable. If the Owner of a Tuition Certificate is a minor under the Uniform Gifts to Minors Act or Uniform Transfers to Minors Act, any rights of the custodian relating to the Tuition Certificate are subject to the limitations imposed by these statutes.

For example, the Qualifying Beneficiary of the Tuition Certificate will be the minor, and the custodian is not entitled to change the Qualifying Beneficiary to someone else. In addition, the custodian would not be entitled to transfer ownership of the Tuition Certificate, except under circumstances, if any, where such action is permissible under the applicable statute. The Owner also may transfer ownership of a Tuition Certificate to any individual who certifies to MEFA that the Qualifying Beneficiary designated by the Owner prior to such transfer is also a Qualifying Beneficiary of the transferee. In connection with any such transfer, MEFA may impose a Family Transfer Fee.

Section 4.06.

Designation of Successor Owner; Transfer to Successor Owner

The Owner may designate an individual as a Successor Owner who will assume ownership of the Tuition Certificates and rights of the Owner under this Enrollment Agreement upon the Owner's death. The Owner may make such designation by completing a Successor Owner designation on the form provided by MEFA. Any such designation of a Successor Owner may be changed by the Owner to a different individual by the filing of a subsequent designation, on the form provided by MEFA, repealing the prior designation and designating a new Successor Owner. Any designation of a Successor Owner is intended to override, to the extent permitted by law, any provisions with respect to the applicable Tuition Certificate and rights under this Enrollment Agreement included in a will or codicil, and will include a representation that the Owner has notified or will promptly notify the Successor Owner of his/her status as Successor Owner. Upon the death of the Owner, the Successor Owner will become, and shall have all rights of, the Owner under this Enrollment Agreement, including the right to direct MEFA to transfer Tuition Certificate proceeds to the Owner instead of for the benefit of the Qualifying Beneficiary and the right to designate a Successor Owner.

SECTION V - OWNER ACCOUNT

Section 5.01.

Establishment of Owner Account; Fees for Owner Account

On or before the initial date on which any moneys are deposited thereto pursuant to the Contract, MEFA will establish the Owner Account at the Program Account Institution, and by accepting a Tuition Certificate the Owner authorizes the establishment of such account. At MEFA's election, the Owner Account may be established as a book entry in the Owner's name within an account established by MEFA to hold proceeds of Tuition Certificates, or in a segregated account maintained directly in the Owner's name. Amounts in an Owner Account will be invested in bank deposits, notes or bonds issued or guaranteed by the United States, investments fully collateralized by such securities, taxable or tax-exempt money market funds, or the Massachusetts Municipal Depository Trust, maturing or available no later than the date such money is expected to be applied under this Enrollment Agreement. Amounts in an Owner Account will earn interest (which may be taxable) at a short-term interest rate based on the earnings realized through investment of such amounts. Except as otherwise provided in this Enrollment Agreement and the Rules, MEFA's confirmation that withdrawals or transfers from the Owner Account have been calculated according to the provisions of this Enrollment Agreement will be required prior to each withdrawal or transfer from the Owner Account. During each year after the maturity year in which the Owner Account is open, MEFA reserves the right to assess a Post Maturity Fee, which fee, if assessed, shall be payable by the Owner and, if not paid on a timely basis, may be deducted by the Program Account Institution from investment earnings payable to the Owner as described in Section 5.02 of the Enrollment Agreement.

Section 5.02.

Withdrawal of Investment Earnings on Owner Account

Investment earnings on amounts on deposit in the Owner Account will be paid to the Owner upon the withdrawal of all amounts on deposit in the Owner Account, subject to the Program Account Institution's right to deduct the Post Maturity Fee pursuant to Section 5.01.

Section 5.03.

Pledge of Owner Account

MEFA will charge the Owner, and the Owner by accepting a Tuition Certificate agrees to pay, the fees described in the Contract when and if due, including but not limited to the semi-annual administrative fee described in Section VI of the Enrollment Agreement and the Stabilization Fee, and, if assessed, any applicable Transfer Fee, Change of Beneficiary Fee, Additional Beneficiary Fee or Post Maturity Fee. In order to secure the payment of such fees if and when payable, the Owner, by accepting the Tuition Certificate, grants, pledges and assigns to MEFA a security interest in the funds deposited to the Owner Account, and irrevocably authorizes MEFA to withdraw or cause to be withdrawn from the Owner Account when due under the terms of this Enrollment Agreement an amount equal to the Stabilization Fee and any applicable Change of Beneficiary Fee, Additional Beneficiary Fee or Post Maturity Fee.

Section 5.04.

Deposits to and Withdrawals from Owner Account

(a) On the Maturity Date of a Tuition Certificate, MEFA will cause to be deposited to the Owner Account an amount equal to the Accrued Amount of such Tuition Certificate calculated at the Standard Accrual Rate. If a Tuition Certificate is purchased from the Owner before the Maturity Date under Section 3.02 of this Enrollment Agreement, MEFA will deposit, or cause to be deposited, to the Owner Account on the Early Tender Date an amount equal to the Early Tender Price, provided that if on such Maturity Date or Early Tender Date MEFA has been directed to transfer such moneys to a Participating Institution, MEFA may effectuate a direct transfer of such moneys on behalf of the Owner to the Participating Institution.

(b) Subject to MEFA's prior confirmation that the amount withdrawn or transferred has been properly calculated, the Owner may withdraw moneys on deposit in the Owner Account or may direct that payment be made to a Participating Institution for Program Uses as provided in Section 3.01, 3.02 or 3.03 of this Enrollment Agreement. At the time of withdrawal or payment from the Owner Account relating to a particular Tuition Certificate, other than payments under Section VI of the Enrollment Agreement, the Owner Account will be closed out with regard to such Tuition Certificate. Excess Proceeds of such Tuition Certificate on deposit in the Owner Account may be applied, as directed by the Owner: (1) to prepay tuition in one or more subsequent years at the Participating Institution attended by the Qualifying Beneficiary or the Secondary Qualifying Beneficiary, but only if and to the extent that the Participating Institution allows such prepayment; (2) to pay for the Designated Portion of Allocable Educational Services or the Post Maturity Educational Services Percentage at a Participating Institution for a Secondary Qualifying Beneficiary; or (3) to pay the Owner Balance to or for the account of the Owner as instructed by the Owner. If not previously closed, the Owner Account relating to a Tuition Certificate will be closed after the beginning of the sixth academic year following the academic year that begins in the maturity year of the Tuition Certificate, and the appropriate portion of any balance remaining in such Owner Account at the time it is closed will be paid over to the Owner as though the Owner had made a withdrawal for a purpose other than Program Uses. Upon the closing out of the Owner Account, any Stabilization Fee not previously paid will be transferred by MEFA to the Stabilization Fund. Any designation by the Owner of a Secondary Qualifying Beneficiary shall be subject to the Owner's payment of an Additional Beneficiary Fee.

(c) In the case of a Tuition Certificate that has been transferred as specified in Section 4.03(a) of the Enrollment Agreement, MEFA is authorized to close out the Owner Account with respect to such Tuition Certificate on its Maturity Date, without notice or approval from the Owner, by authorizing the payment to or for the Owner's account of the Owner Balance and transferring the Stabilization Fee to the Stabilization Fund.

SECTION VI - ADMINISTRATIVE FEES; ASSIGNED PAYMENTS

MEFA will charge the Owner, in addition to any other fees specified in the Contract, and the Owner by accepting the Tuition Certificate agrees to pay, only from the Current Coupon interest on each Tuition Certificate, a semi-annual administrative fee equal to payments received on the Current Coupon. The Owner by accepting the Tuition Certificate irrevocably assigns to MEFA and authorizes MEFA to receive on behalf of the Owner from the Program Custodian, payments on the Current Coupon and apply such payments to such administrative fee. The Owner also agrees to pay the Stabilization Fee when required under this Enrollment Agreement, and, if a Stabilization Fee becomes payable, irrevocably assigns to MEFA its interest in an amount of funds deposited in the Owner Account equal to the Stabilization Fee. Such Assigned Payments will be used by MEFA to pay for Program operating costs and related program expenditures.

SECTION VII - MISCELLANEOUS

Provisions

Section 7.01.

Notices and Changes

All notices, changes, and choices made under the Contract must be in writing, signed by the Owner and received by MEFA at the address specified by MEFA, along with any supporting documentation MEFA may reasonably require and any applicable administrative fees.

Section 7.02.

Additional Fees Charged by Participating Institutions

Participating Institutions may charge fees in addition to the Tuition and Mandatory Fees described herein. Such additional fees shall not be payable from Tuition Certificate Proceeds.

Section 7.03.

Notice of Intent to Apply Contract Benefits

The applicable Owner must submit written notification to MEFA at least thirty (30) days prior to the projected commencement date for utilization of the Contract benefits by a Qualifying Beneficiary.

Section 7.04.

Identification

To avoid back-up withholding on amounts payable to or on behalf of a Purchaser, Owner or Qualifying Beneficiary under the Contract, the Owner and Qualifying Beneficiary shall submit when required a valid and completed Internal Revenue Service Form W-9.

Section 7.05.

Document Replacement or Copies

A Purchaser may obtain replacements of Program documents or copies of documents from MEFA. A minimum fee of \$5.00 per document shall be assessed.

Section 7.06.

Annual Statements

Each Owner will receive an annual statement from the Program Recordkeeper indicating the Owner Accreted Amount of each Tuition Certificate and the aggregate Educational Services Percentages by Maturity Date and Participating Institution to which the Qualifying Beneficiary is entitled under the Program.

Section 7.07.

Disclaimers

Nothing in the Contract shall be construed as a promise or a guarantee by MEFA, employees or consultants of MEFA, the Commonwealth or any Participating Institution that a Qualifying Beneficiary (a) will be admitted to a Participating Institution; (b) will be admitted to a particular Participating Institution; (c) will be allowed to continue to attend a Participating Institution after having been admitted; (d) will be graduated from a Participating Institution; or (e) if admitted to a Participating Institution, will meet that institution's residency requirements for In-State Tuition. Nothing in the Contract shall constitute a promise or guarantee that each or any Participating Institution will be in existence at the time a Qualifying Beneficiary seeks to enroll or apply a Tuition Certificate. The benefits described in the Contract are conditioned on timely payments by the Commonwealth on the Related Program Bonds. Nothing in the Contract shall be construed as a promise or guarantee by MEFA or any Participating Institution that the Commonwealth will make such timely payments.

Section 7.08.

Waiver of Rules

MEFA, in its discretion, may waive provisions of the Contract and of the Rules to prevent hardship to the Purchaser, Owner or the Qualifying Beneficiary.

Section 7.09.

Interpretation

The Contract is to be interpreted under the laws of the Commonwealth.

Section 7.10.

Severability

In the event that any clause or portion of the Contract is found to be invalid or unenforceable by a court or competent jurisdiction, that clause or portion shall be severed from the Contract and the remainder of the Contract will remain in full force and effect.

Section 7.11.

Limited Recourse

The obligations of MEFA under this Enrollment Agreement and the Contract are limited obligations payable only from moneys received by or available to MEFA in connection with the Program, and no recourse shall be had by the Purchaser, Owner or any other party against the general funds of MEFA or any other funds of MEFA in connection with any obligation arising out of this Enrollment Agreement, the Contract, the Program or any related transaction. No recourse shall be had for the payment of any such obligation against any member, officer or employee of MEFA. The Commonwealth has no responsibility under the Program other than to pay the principal of and interest on the Bonds when due in accordance with the terms of the Bonds.

Definitions Section

“Accreted Amount” means, with respect to a Commonwealth College Opportunity Bond or Tuition Certificate, the initial principal amount of such Bond or the Investment Amount of such certificate, as applicable, increased on each August 1 to and including the Maturity Date, or, if applicable, the Early Tender Date or Pre-Transfer Accretion Date, by adding to the Accreted Amount in effect on the prior August 1 (or, in the case of the August 1 immediately following the Issue Date, in effect on the Issue Date) the dollar amount obtained by applying the Standard Accrual Rate or Program Accrual Rate, as applicable, in effect since the prior August 1 (or Issue Date) to the Accreted Amount as of such prior August 1 (or Issue Date).

“Additional Beneficiary Fee” means the fee, if any, imposed by MEFA in connection with the Owner’s designation of a Secondary Qualifying Beneficiary of a Tuition Certificate, as established by MEFA from time to time.

“Agent” or “Point of Sale Agent” means the contractor selected from time to time by MEFA to accept Purchase Request Forms and Deposits, and if no such contractor is selected, shall mean MEFA.

“Allocable Educational Services” means a percentage of Educational Services in the Qualifying Year in which a Tuition Certificate is used at a Participating Institution that equals the Educational Services Percentage.

“Applicable Issuance Period” means the period extending from the day after the end of an Enrollment Period to and including August 1 of the calendar year in which the Enrollment Period ends, or such later date to which such period may be extended by the Authority.

“Assigned Payments” means the payments received by the Owner on a Tuition Certificate that the Owner has assigned to MEFA under Section VI of the Enrollment Agreement, consisting of the Current Coupon on each Tuition Certificate and a portion of any payment received by an Owner on a Tuition Certificate equal to the Stabilization Fee, provided that the assignment of the amounts equal to the Stabilization Fee shall be effective only if, and to the extent, the Stabilization Fee becomes payable.

“Change of Beneficiary Fee” means the fee, if any, imposed by MEFA in connection with a change in the name of the Qualifying Beneficiary of a Tuition Certificate.

“Commonwealth College Opportunity Bond” or “Bond” means a general obligation bond issued by The ommonwealth of Massachusetts and deposited with the Program Custodian and bearing interest as described in Section 2.05 of the Enrollment Agreement.

“CPI” means the Consumer Price Index – All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics during the calendar month before the calendar month of the Issue Date of a Related Program Bond and during the calendar month before each applicable compounding date on the Related Program Bond, or, if such index is eliminated, any successor to such index.

“CPI Flat” means a variable interest rate equal to the annual positive percentage change, if any, in CPI since the preceding August 1 (or, in the case of the August 1 immediately preceding the Issue Date, a dollar amount equal to the annualized positive percentage change, if any, in CPI since the Date), compounded on each August 1.

“Current Coupon” – see Section 2.05 of the Enrollment Agreement.

“Deposit” means the aggregate amount, equal to the proposed Investment Amount of all Tuition Certificates to be purchased pursuant to the Contract, paid by the Purchaser and transferred to MEFA pursuant to Section 2.02 of the Enrollment Agreement.

“Designated Portion” means that percentage of Allocable Educational Services that an Owner designates for use on a particular Tuition Payment Date at a particular Participating Institution for a particular Qualifying Beneficiary.

“Early Tender Date” means August 1 of either of the two years immediately preceding the Maturity Date of a Related Program Bond, provided the Owner sells the Tuition Certificate on such Early Tender Date as described in Section 3.02 of the Enrollment Agreement.

“Early Tender Price” means the Accreted Amount of the Tuition Certificate at the Standard Accrual Rate on the Early Tender Date.

“Early Withdrawal Fee” means the fee, if any, charged by MEFA in connection with any financial hardship withdrawal pursuant to Section 4.03(b) of the Enrollment Agreement, as established by MEFA from time to time.

“Educational Services” means the services and rights the Participating Institution provides to a Student in return for the Student’s payment of Tuition to the Institution; Educational Services does not include fees for room and board, travel, health care, books, supplies or equipment.

“Educational Services Percentage” means the percentage of Educational Services that the Investment Amount of a Tuition Certificate would purchase in the academic year beginning during the calendar year in which the Tuition Certificate was issued, as set forth on the applicable Tuition Schedule. The Educational Services Percentage listed on a Tuition Certificate may be greater than 100% for one or more Participating Institutions.

“Effective Year” means any year designated by a Participating Institution in its Participation Agreement with MEFA as a year with respect to which Tuition Certificates issued in such year will be honored by such Participating Institution under the terms of the Participation Agreement and the Enrollment Agreement.

“Enrollment Period” means for each year the period designated by MEFA during which new Contracts will be accepted by MEFA.

“Excess Proceeds” means the excess, if any, of (i) the proceeds of a Tuition Certificate deposited to an Owner Account and proceeds available under a Contingent Coupon over (ii) the proceeds of a Tuition Certificate, if any, paid to a Participating Institution (including proceeds of a Contingent Coupon) for Program Uses.

“Family Transfer Fee” means the fee, if any, imposed by MEFA in connection with any change of Owner of a Tuition Certificate pursuant to Section 4.05.

“In-state Tuition” means, in the case of any public Participating Institution, Tuition payable by a Student who is a resident of the Commonwealth.

“Investment Amount” means the initial amount invested by the Purchaser in a Tuition Certificate, as represented by the initial principal amount of the Tuition Certificate (or, in the case of a Tuition Certificate acquired after the initial issuance of such Tuition Certificate pursuant to a transfer described in Section 4.03(b) of the Enrollment Agreement, the Accreted Amount at the Standard Accrual Rate as of the date of acquisition).

“Issue Date” means the date as of which a Related Program Bond begins to accrue interest.

“Mandatory Fees” means non-waivable fees required by a Participating Institution for the enrollment or attendance of a full-time Student for the full applicable academic year, exclusive, unless otherwise indicated by the Participating Institution, of specialized fees charged only in certain years (e.g., orientation fees and graduation fees), and incremental fees for specialized programs, majors or courses of study (e.g., lab fees, computer fees), as reported by the Participating Institution to MEFA.

“Maturity Date” means the August 1 of the year in which a Related Program Bond matures.

“Maturity Proceeds” means (i) the Accreted Amount of a Tuition Certificate at the Program Accrual Rate on the Maturity Date multiplied by (ii) the Designated Portion.

“Maturity Year” means the academic year of a Participating Institution beginning in the calendar year of the Maturity Date.

“Non-Program Portion” means for each Tuition Certificate, a percentage of the Investment Amount equal to the percentage of the amount deposited from a Tuition Certificate to the Owner Account on the Maturity Date or, if applicable, Early Tender Date that is not applied by the Owner for Program Uses, as determined by MEFA.

“Nonresident Tuition” means, in the case of any public Participating Institution, Tuition payable by a Student who is not a resident of the Commonwealth.

“Owner” means, initially, the Purchaser and, upon a transfer of a Tuition Certificate and/or the rights of the Owner under this Enrollment Agreement, means such transferee. “Owner” includes any custodian for a minor named in compliance with the Uniform Gifts to Minors Act and Uniform Transfers to Minor Acts or similar laws as applicable.

“Owner Account” means an account established in an Owner’s name (or, if an Owner has transferred the Tuition Certificate as described in Section 4.03(b) of the Enrollment Agreement, the name of the transferee), including by book entry in an account established by MEFA, at the Program Account Institution for the deposit of Tuition Certificate Proceeds.

“Owner Accreted Amount” means, with respect to each Tuition Certificate, the Investment Amount of such Tuition Certificate, increased on each August 1 to and including the Maturity Date or, if applicable, the Early Tender Date or Pre-Transfer Accretion Date, by adding to the Owner Accreted Amount in effect on the prior August 1 (or, in the case of the August 1 immediately following the Issue Date of such Tuition Certificate, in effect on such Issue Date) a dollar amount equal to the positive percentage change, if any, in CPI since the preceding August 1 (or, in the case of the August 1 immediately preceding the Issue Date, a dollar amount equal to the annualized positive percentage change, if any, in CPI since the Issue Date).

“Owner Balance” means, with respect to each Tuition Certificate, the Non-Program Portion increased on each August 1 to and including the Maturity Date or, if applicable, the Early Tender Date or Pre-Transfer Accretion Date, by adding to the Owner Balance in effect on the prior August 1 (or, in the case of the August 1 immediately following the Issue Date of such Tuition Certificate, in effect on such Issue Date) a dollar amount equal to the positive percentage change, if any, in CPI since the preceding August 1 (or, in the case of the August 1 immediately preceding the Issue Date, a dollar amount equal to the annualized positive percentage change, if any, in CPI since the Issue Date).

“Participating Institution” means an institution of higher education located in The Commonwealth of Massachusetts, authorized under federal or state law to provide educational programs and accredited by a nationally recognized accreditation agency, which has executed a Participation Agreement with MEFA pursuant to which such institution has committed (i) to provide Allocable Educational Services for a Qualifying Beneficiary who is a Student at such Institution in a Qualifying Year upon receipt of Tuition Certificate Proceeds of Tuition Certificates issued in Effective Years, and (ii) to provide the Post Maturity Educational Services Percentage for a Qualifying Beneficiary who is a Student in a Post Maturity Year upon receipt of Post Maturity Proceeds of Tuition Certificates issued in Effective Years, in either case subject to the conditions described in the Enrollment Agreement and Participation Agreement.

“Participation Agreement” means the agreement between MEFA and a Participating Institution governing the Participating Institution’s participation in the Program.

“Post Maturity Educational Services Percentage” means a percentage of Educational Services in the Post Maturity Year a Tuition Certificate is used at a Participating Institution equal to the ratio of (i) the Post Maturity Educational Services Rate to (ii) the Tuition in effect in such year, multiplied by 100. The Post Maturity Educational Services Percentage is referred to as the “Applicable Educational Services Percentage” in the Participation Agreement.

“Post Maturity Educational Services Rate” means a dollar amount equal to (i) the Allocable Educational Services (assuming payment to the Participating Institution of the Tuition Certificate Proceeds) multiplied by Tuition in effect on the Maturity Date of the Related Program Bond multiplied by (ii) a fraction consisting of (A) the proceeds of a Tuition Certificate paid to the Participating Institution over (B) the Tuition Certificate Proceeds which the Participating Institution would have received in the Maturity Year as a condition to providing the Allocable Educational Services. The Post Maturity Educational Services Rate is referred to as the “Educational Services Rate” in the Participation Agreement.

“Post Maturity Fee” means the annual fee, if any, imposed under Section 5.01 for the maintenance of the Owner Account.

“Post Maturity Proceeds” means proceeds of a Tuition Certificate remaining on deposit in an Owner Account after a Tuition Payment Date in the Maturity Year, and, if applicable, Contingent Coupon proceeds payable after a Tuition Payment Date in the Maturity Year.

“Post Maturity Year” means each of the academic years, other than a Qualifying Year, that begins within six years of the Maturity Year.

“Pre-Maturity Proceeds” means (i) the Accreted Amount of a Tuition Certificate at the Program Accrual Rate on the applicable Early Tender Date multiplied by (ii) the Designated Portion.

“Pre-Transfer Accretion Date” means the August 1 immediately preceding the Transfer Date or, if the Transfer Date is August 1, the Transfer Date.

“Program Account Institution” means the financial institution or institutions (including without limitation an investment company, mutual fund or money market fund) selected from time to time by MEFA to establish Owner Accounts.

“Program Accrual Rate” means interest at an annual rate equal to the percentage change in CPI since the previous August 1 or, in the case of the August 1 immediately following the Issue Date, the annualized percentage change in CPI since the Issue Date, in each case plus 200 basis points. If the percentage change in CPI during any compounding period is negative, such negative percentage will be deducted from the 200 basis points, but if the resulting percentage is negative or zero, no adjustment will be made to the prior compounded value.

“Program Custodian” means the financial institution selected from time to time by MEFA to take custody of Commonwealth College Opportunity Bonds and issue Tuition Certificates.

“Program Portion” means for each Tuition Certificate, the Investment Amount less the Non-Program Portion.

“Program Uses” means the application of payments received on a Tuition Certificate issued in an Effective Year to purchase Educational Services for a Qualifying Beneficiary at a Participating Institution in a Qualifying Year or Post Maturity Year.

“Purchase Request Form” means a request for acceptance into the Program, made on a form approved by MEFA.

“Purchaser” means the person or entity providing the Investment Amount towards the purchase of Tuition Certificates thereunder, who will be the initial Owner of each such Tuition Certificate.

“Qualifying Beneficiary” means for each Tuition Certificate, the Owner or another person designated as a beneficiary by the Owner as permitted under the Rules and who has been certified, to the satisfaction of MEFA, as the Owner’s sibling or as a living lineal descendant of the Owner or the Owner’s sibling. A lineal descendant includes any persons deemed lineal descendants under the Rules, such as step or adopted lineal descendants. A Qualifying Beneficiary has no vested rights in a Tuition Certificate, and the Owner has the right to change a Qualifying Beneficiary designation at any time, provided the new Qualifying Beneficiary is a Qualifying Beneficiary Relative of the preceding Qualifying Beneficiary.

“Qualifying Beneficiary Relative” means a Qualifying Beneficiary who is, with respect to the preceding Qualifying Beneficiary, (i) an ancestor, (ii) a lineal descendant or (iii) a lineal descendant of the parent of the preceding Qualifying Beneficiary.

“Qualifying Year” means the Maturity Year and the two preceding academic years.

“Refund Rate” means the rate of interest, as determined by MEFA, equal to the weighted average rate of return earned by MEFA on all Deposits received by MEFA during the period preceding a refund on which the Refund Rate is paid.

“Related Program Bond” means the Commonwealth College Opportunity Bond to which a Tuition Certificate relates.

“Secondary Qualifying Beneficiary” means, for each Tuition Certificate, the Owner or another person who is not the primary Qualifying Beneficiary and who is (i) a Qualifying Beneficiary Relative of the primary Qualifying Beneficiary and (ii) designated by the Owner at the time the proceeds of a Tuition Certificate are applied as a Qualifying Beneficiary as permitted by the Rules.

“Stabilization Fee” means an amount equal to (i) the Accreted Amount of a Tuition Certificate at the Standard Accrual Rate on the Maturity Date or, if applicable, the Early Tender Date or Pre-Transfer Accretion Date, minus (ii) any Tuition Certificate Proceeds or Post Maturity Proceeds of such Tuition Certificate paid to a Participating Institution for Program Uses, minus (iii) the Owner Balance.

“Stabilization Fund” means the fund of that name established on the books of MEFA.

“Standard Accrual Rate” means interest at an annual rate equal to the percentage change in CPI since the prior August 1 or, in the case of the August 1 immediately following the Issue Date, the annualized percentage change in CPI since the Issue Date, in each case plus 200 basis points. If the percentage change in CPI during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior compounded value.

“Student” means (i) an undergraduate student at a Participating Institution who is pursuing studies or conducting research to meet the requirement for an academic or professional degree or (ii) a full-time or part-time undergraduate student at a Participating Institution, if such institution provides an educational program that is acceptable for full-credit towards a bachelor’s or higher degree, or offers a program of training to prepare students for gainful employment in a recognized occupation.

“Successor Owner” means an individual designated by the Owner in accordance with Section 4.06 of the Enrollment Agreement to become the Owner in the event of the Owner’s death.

“Transfer Date” means the effective date of any transfer of a Tuition Certificate in accordance with Section 4.03(b) the Enrollment Agreement.

“Transfer Fee” means the fee, if any, imposed by MEFA in connection with any permitted change of Owner of a Tuition Certificate, other than pursuant to Section 4.05.

“Tuition” means tuition rates, whether expressed as annual, semester, trimester, quarter or credit-hour charges or otherwise, required for the enrollment or attendance of a full-time Student attending a Participating Institution, plus Mandatory Fees. In the case of a public Participating Institution, In-state Tuition and Nonresident Tuition will be separately stated for purposes of each Tuition Schedule, and references to Tuition in this Enrollment Agreement mean In-state Tuition or Nonresident Tuition, as applicable at the time of attendance to the Qualifying Beneficiary for whose benefit Contract benefits are applied. A Participating Institution may also separately state Tuition for specialized programs, and such specialized program Tuition will be separately stated on each Tuition Schedule.

“Tuition Certificate” means a certificate, or acknowledgment of a book entry, representing a fractional ownership interest in a Commonwealth College Opportunity Bond with a specified Issue Date and Maturity Date held by the Program Custodian.

“Tuition Certificate Proceeds” means the Maturity Proceeds or Pre-Maturity Proceeds of a Tuition Certificate, as applicable. Tuition Certificate Proceeds are referred to as “Program Certificate Proceeds” in the Participation Agreement.

“Tuition Payment Date” means the earliest date established by the applicable Participating Institution for payment of Tuition by all Students.

“Tuition Schedule” means the schedule maintained by the Program Recordkeeper setting forth the Educational Services Percentage relating to the Allocable Educational Services to be obtained by a Qualifying Beneficiary at each Participating Institution in exchange for the Maturity Proceeds or Pre-Maturity Proceeds paid to such Participating Institution in a Qualifying Year. The Tuition Schedule may be amended from time to time by MEFA to reflect the participation of additional Participating Institutions and the Educational Services Percentage relating to the Allocable Educational Services to be provided by each such additional Participating Institution for a Qualifying Beneficiary in exchange for the Maturity Proceeds or Pre-Maturity Proceeds paid to such Participating Institution in a Qualifying Year.



Program Description and Offering Statement

As of May 1, 2010

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UPLAN

Prepaid Tuition Program

ENROLL MAY 1 - JUNE 30, 2010

Update dated as of May 1, 2010 to program description and offering statement relating to the U.Plan: the Massachusetts Tuition Prepayment Program

You have previously received a Program Description and Offering Statement (the “Offering Statement”) describing The U.Plan: The Massachusetts Tuition Prepayment Program (the “U.Plan” or the “Program”) administered by the Massachusetts Educational Financing Authority (“MEFA”) in connection with your purchase, as part of the U.Plan, of beneficial ownership interests (called Tuition Certificates) in one or more series of The Commonwealth of Massachusetts General Obligation Bonds, College Opportunity Bonds issued since the Program began in 1995. This update (the “Update”) relates to the offering of Tuition Certificates in connection with the issuance of The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds Series A (the “Bonds”). The Update should be read together with the most recent Offering Statement you previously received. If you no longer have a copy of the Offering Statement, or if you would prefer to review the Offering Statement for the Bonds (the “2010 Offering Statement”) rather than a prior Offering Statement and this Update, a copy of the 2010 Offering Statement is available by calling (800) 449-MEFA.

In order to evaluate the creditworthiness of the Bonds, you should review certain financial, budgetary and economic information relating to the Commonwealth set forth in the most recent Commonwealth Information Statement, which as of the date of publication of this Offering Statement is expected to consist of the Commonwealth Information Statement dated March 26, 2009 (the “March 2009 Information Statement”) as supplemented by the Commonwealth Information Statement Supplement dated March 2, 2010 (the “Supplement”). This Commonwealth Information Statement is not attached to this Offering Statement. It appears, in the case of the March 2009 Information Statement, as Appendix A in the Commonwealth’s Official Statement dated May 20, 2009 with respect to its General Obligation Bonds, Consolidated Loan of 2009, Series B, its General Obligation Bonds, Consolidated Loan of 2009, Series C and its General Obligation Bonds, Consolidated Loan of 2009, Series D (the “May 2009 Official Statement”) and in the case of the Supplement, as Appendix A in the Commonwealth’s Official Statement dated March 11, 2010 with respect to its General Obligation Refunding Bonds (SIFMA Index Bonds) Series 2010A (the “March 2010 Official Statement”). Copies of the March Official Statement and the May Official Statement are available on the Electronic Municipal Market Access (“EMMA”) system website of the Municipal Securities Rulemaking Board (the “MSRB”), which can be accessed at <http://emma.msrb.org>. In order to evaluate the creditworthiness of the Bonds, you should also review subsequent filings by the Commonwealth to the EMMA system prior to the issuance of the Bonds and Tuition Certificates, including any supplements to or revisions of the Commonwealth Information Statement and any continuing disclosure documents identified as “other financial/operating data” on the EMMA system. Exhibits B and C to the Commonwealth Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2009, prepared on a statutory basis and on a GAAP basis, respectively. Such financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Financial Reports.” The Commonwealth Information Statement, together with any supplements or revisions thereof occurring prior to the issuance of the Bonds and Tuition Certificates to be issued in 2010, also may be obtained by calling (800) 449-MEFA or may be reviewed at the offices of MEFA. If you review the Commonwealth Information Statement during the Enrollment Period in connection with your decision to purchase Tuition Certificates, you should call (800) 449-MEFA prior to July 1, 2010 to obtain any supplements or revisions to such Commonwealth Information Statement occurring subsequent to your deposit of money to purchase a Tuition Certificate.

Any information in this Update that is inconsistent with the information set forth in an Offering Statement supercedes the applicable information in such Offering Statement.

The payments on a Tuition Certificate are derived from payments made by the Commonwealth on the Bonds, and MEFA has no obligation to make payments on a Tuition Certificate upon any delay or failure by the Commonwealth to make the applicable payment on the applicable Bonds. The obligation of a Participating Institution to credit a Qualifying Beneficiary with the percentage of Tuition set forth in the Tuition Schedule in the aca-

ademic year that begins in the year in which the Tuition Certificate matures is a contractual obligation of the applicable Participating Institution, and is conditioned on receipt by the applicable Participating Institution of the full amount payable on the Tuition Certificate at maturity from payments made on the applicable Bonds by the Commonwealth, as well as on the Qualifying Beneficiary’s admission and continued enrollment at the Participating Institution and the continued existence of the Participating Institution when the Tuition Certificate proceeds are applied. MEFA has no obligation with respect to the payment of, or the amount of, Tuition payable by a Qualifying Beneficiary at a Participating Institution and a Participating Institution has no obligation to credit any Tuition to the Qualifying Beneficiary of a Tuition Certificate upon any delay or failure by the Commonwealth to make the applicable payments on the applicable Bonds and/or any delay or failure by the Participating Institution to receive the full amount paid at maturity on a Tuition Certificate. If a Participating Institution were to fail to honor its obligation to credit Tuition Certificates appropriately, MEFA has the contractual right to seek enforcement of such obligation.

Terms of the Bonds and Tuition Certificates

Bonds and Tuition Certificates offered in 2010 are expected to be issued on or about August 1, 2010, and will bear interest from August 1, 2010. In certain circumstances, the Bonds may be issued subsequent to August 1, 2010 (and in certain prior years of the Program Commonwealth bonds issued in connection with the Program have been issued after the expected August 1 issuance date), but the Bonds, and the related Tuition Certificates, will bear interest from August 1, 2010 irrespective of the issuance date. The Bonds will mature on August 1 in the years from 2015 through 2030 and in the aggregate initial principal amounts determined prior to the issuance thereof by the Commonwealth, after consultation with MEFA. The semi-annual payments referenced in the Offering Statement will commence, in the case of the Bonds, beginning February 1, 2011.

You may apply to purchase 2010 Tuition Certificates only by submitting a Purchase Request Form, together with a check equal to the aggregate Investment Amount of the Tuition Certificates requested, to MEFA on or before June 30, 2010. Applicants may cancel their commitment to purchase a Tuition Certificate by delivering written notice to MEFA no later than July 15, 2010, in which case the applicable Deposit will be refunded to such applicant, without interest.

Each applicant will be notified on or about September 1, 2010, or as soon thereafter as is practicable, as to the Investment Amount and maturity date of each Tuition Certificate allocated to such applicant. Although in certain prior years Purchasers of tuition certificates in the Program have been required to pay certain application and processing fees, MEFA has waived such fees with respect to purchases of Tuition Certificates to be issued in 2010. In addition, MEFA currently is not assessing fees in connection with specific transactions relating to Tuition Certificates, although it reserves the right to do so at a future date. If imposed, such fees are expected to be of modest amount and would be designed to reimburse MEFA for the costs of processing the transaction in question.

Interest on the Bonds and Tuition Certificates is payable as follows:

(i) Each Bond, and each Tuition Certificate representing a fractional beneficial ownership interest in such Bond, will bear interest, payable at maturity, on its respective Accreted Amount at an annual interest rate equal to the Standard Accrual Rate. The Standard Accrual Rate will be equal to the percentage change in CPI since the preceding August 1 (or, in the case of the August 1 immediately following the Issue Date, the annualized percentage change in CPI since the Issue Date), plus 200 basis points (2.0%).

(ii) Each Bond, and each Tuition Certificate representing a fractional beneficial ownership interest in such Bond, will bear interest on the initial principal amount or Investment Amount thereof, as applicable, payable semi-annually on each August 1 and February 1, beginning February 1, 2011, at an annual rate of 50 basis points (0.5%) (the ‘Current Coupon’). Pursuant to the Enrollment Agreement, the Current Coupon payable on a Tuition Certificate is irrevocably assigned by the Owner to MEFA and will not in any circumstances be available to the Owner.

The Commonwealth will undertake in the Bonds to file with the Electronic Municipal Market Access system maintained by the Municipal Securities Rulemaking Board its annual reports and notices of certain events relating to the Commonwealth’s financial condition. A description of this undertaking is set forth in the most recent official statement of The Commonwealth of Massachusetts, which is incorporated herein by reference.

Updated Information Relating to Owner Account

When a Tuition Certificate matures or is tendered early an amount equal to the Investment Amount plus compounded interest at a rate equal to CPI plus up to 2% until the maturity date or early tender date will be deposited to a special account (the “Owner Account”) established at the Program Account Institution. At MEFA’s election, the Owner Account may be established as a book entry in your name within an account established by MEFA to hold such proceeds of Tuition Certificates, or in a segregated account maintained directly in your name. Your Owner Account relating to a Tuition Certificate will be closed after the beginning of the sixth academic year following the academic year that begins in the year your Tuition Certificate matures, and the appropriate portion of any balance remaining in such Owner Account at the time it is closed will be paid over to you as though you had made a withdrawal for a purpose other than Program Uses. Amounts in an Owner Account will be invested in bank deposits, notes or bonds issued or guaranteed by the United States, investments fully collateralized by such securities, taxable or tax-exempt money market funds, or the Massachusetts Municipal Depository Trust, maturing or available no later than the date such money is expected to be applied under the Enrollment Agreement. You will earn interest (which may be taxable) at a short-term interest rate based on the earnings realized through such investment on amounts on deposit in your Owner Account and may pay an annual fee on such account until such amounts are applied for Program Uses or withdrawn from the account. MEFA will report such interest to you annually as required by applicable tax law. Applicable tax law currently requires such reporting without regard to whether the interest is tax-exempt or taxable and without regard to whether such interest has been distributed to you or retained in the Owner Account.

Updated Information Relating to Tax Matters

Pursuant to federal regulations governing practitioners who render tax advice (“Circular 230”) which may be applicable to certain of the information set forth in this section of this Offering Statement, please note that any tax advice contained in the following disclosure regarding the federal tax consequences of participation in the Program is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. Any such tax advice was written to support the promotion or marketing of the Program. A taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.

Income Tax Consequences

The opinion to the effect that payments made by the Commonwealth on the Bonds and Tuition Certificates are excluded from gross income for federal income tax purposes will be based principally on the treatment of such payments as interest on a Commonwealth bond. In the case of a Tuition Certificate, or any portion of a Tuition Certificate, used by the Owner to pay tuition costs at the Participating Institution attended by the Qualified Beneficiary, the opinion, with respect to the portion of the accruing stated interest on the Tuition Certificate which exceeds CPI, also will be based on the alternative treatment of such portion of the accruing stated interest as a tax-exempt qualified scholarship under current law. If current law with respect to the tax treatment of qualified scholarships were to change subsequent to the issuance of the Bonds and Tuition Certificates and prior to the use of the Tuition Certificate at a Participating Institution, it is possible that the portion of the accruing stated interest on the Tuition Certificate which exceeds CPI would constitute taxable income in whole or in part. In the case of a Tuition Certificate, or any portion of a Tuition Certificate, that is not used by the Owner to pay tuition costs at the Participating Institution attended by the Qualified Beneficiary, the opinion, with respect to the portion of the accruing stated interest on the Tuition Certificate which exceeds CPI, also will be based on the alternative treatment of such portion of the accruing stated interest as not constituting income of the Owner because such amount is assigned by the owner to the authority as a condition to and

at the time of the purchase of the applicable Tuition Certificate. Because the payment structure of such Bonds is unique to the Program, such opinion to the effect that payments made by the Commonwealth on the Bonds and Tuition Certificates are excluded from gross income for federal income tax purposes will be subject to the qualifications and lesser degree of certainty discussed in the preceding paragraph, which are not present in bond counsel opinions typically rendered in connection with the issuance of Commonwealth bonds and other tax-exempt municipal bonds.

Prospective Owners of Tuition Certificates should be aware that section 86 of the Code requires recipients of certain Social Security and Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Tuition Certificate and that receipt of investment income, including interest on the Tuition Certificates, may disqualify the recipient thereof from obtaining the earned income credit under section 32(i) of the Code.

State Tax Matters

Bond Counsel is of the opinion that interest or other income earned with respect to the Bonds and Tuition Certificates is exempt from Massachusetts personal income taxes, and that the Bonds and Tuition Certificates are exempt from Massachusetts personal property taxes. Bond counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective owners of Tuition Certificates should be aware, however, that the Bonds and Tuition Certificates and the interest or other income thereon are included in the measure of Massachusetts corporate excise and franchise taxes, and the Bonds and Tuition Certificates may be included in the measure of Massachusetts estate and inheritance taxes. Owners of Tuition Certificates who reside in states other than Massachusetts should consult their tax advisors as to the state income tax consequences of ownership of Tuition Certificates. In states other than Massachusetts, state income tax may be due on the accruing interest of CPI plus up to 2% and on the 0.5% semi-annual current interest described herein.

Gift Tax Consequences

The gift tax treatment of the Tuition Certificates will depend on whether the U.Plan is deemed a “qualified tuition program” under Section 529 of the Code. In general, Section 529 of the Code permits income tax deferral on investment earnings with respect to a qualifying prepaid tuition program or state tuition savings plan until such investment earnings are distributed to the contributor or the contributor’s beneficiary. The income tax consequences of participation in the U.Plan (as described under “Income Tax Consequences” in the Offering Statement) are not based on its qualification under Section 529, and, in the opinion of the Authority’s special counsel, although the matter is not free from doubt, it is more likely than not that Section 529’s gift tax provisions are inapplicable to the U.Plan. If the U.Plan is not treated as a “qualified tuition program” under Section 529, it is expected that, under current law, neither the designation by the Owner of a Qualifying Beneficiary nor the use of Tuition Certificates to make payments to a Participating Institution with respect to a Qualifying Beneficiary’s tuition will subject the Owner to the federal gift tax.

Although the Authority does not believe that the Section 529 gift tax provisions are applicable to the U.Plan, because no definitive determination of the applicability of Section 529 to the U.Plan has been obtained, Owners should be aware that any contribution to a Section 529 “qualified tuition program” on behalf of any designated beneficiary is treated as a completed gift to such beneficiary as of the date of such contribution, and does not qualify for gift tax exclusion under Section 2503(e) of the Code, which excludes from gift tax amounts paid on behalf of an individual to an educational institution for the education or training of such individual. In general, gifts in calendar year 2009 of a present interest in property of value up to \$13,000 (which amount is subject to future adjustment for inflation) by a donor (\$26,000, subject to future adjustment for inflation, by a married couple filing a joint return and making a gift-splitting election) to any person are excludable from the federal gift tax. A donor currently has a \$1,000,000 lifetime exemption equivalent that may be applied to gifts in excess of the gift tax annual exclusion amounts referred to above. Under the Code provisions in effect as of March 15, 2010, the highest gift tax rate for taxable gifts in 2010 is 35%. Unless the provisions of current law are extended beyond 2010, the gift tax rates effective for the 2001 tax year,

generally consisting of graduated rates from 37 percent to 55 percent, would be reinstated for tax years beginning in 2011.

Owners should consult their tax advisors with respect to the gift tax consequences of gifts of Tuition Certificates and/or the designation of a Qualifying Beneficiary or transfer of proceeds of a Tuition Certificate.

Impact of Certain Regulations and Proposed Regulations Governing

Tax Opinion Practices

In June, 2005 the United States Treasury Department amended its “Circular 230” regulations governing the practice of tax advisers, including attorneys, before the Internal Revenue Service. Certain opinions to be rendered by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, PC., as bond counsel and special counsel, including the opinion as to the potential alternative tax treatment of the portion of the accruing stated interest on Tuition Certificates that exceeds CPI as a tax-exempt qualified scholarship under current law, and opinions as to gift tax and income tax consequences of the use of Tuition Certificates to pay for educational services, may be subject to such regulations. Any such opinion will state clearly that the advice included therein is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties, that the advice is being delivered to support the promotion or marketing of investment in the U.Plan, and that the investor should seek advice based on his or her particular circumstances from an independent tax advisor.

The Treasury Department has proposed separate amendments to the Circular 230 regulations with respect to state or local bond opinions, which opinions are not covered by the amendments that became effective in June, 2005. The proposed amendments (the “Proposed Amendments”) are intended to require, among other items, the written identification by bond counsel to bond issuers of any “significant Federal tax issue” affecting bond counsel’s opinion that income earned on a state or local bond will be excluded from gross income for purposes of federal personal income taxes. Under the Proposed Amendments, a tax issue is considered significant if the Internal Revenue Service has a reasonable basis for a successful challenge and its resolution could have a significant impact on the overall federal tax treatment of the matters addressed in the opinion. If the Proposed Amendments are finalized in their current form prior to the date of issuance of the Bonds and the related Tuition Certificates, bond counsel may be required to identify certain issues relating to its opinion that the income earned on a Tuition Certificate by the Owner of the Tuition Certificate will be excluded from gross income for purposes of federal personal income taxes as “significant Federal tax issues” for purposes of the requirements of Circular 230, as so amended, and/or may state that the advice included therein with respect to such issues is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties, that such advice is being delivered to support the promotion or marketing of investment in the U.Plan, and that the investor should seek advice based on his or her particular circumstances from an independent tax advisor. Although adoption of the Proposed Amendments in their current form may result in additional disclosure to The Commonwealth of Massachusetts, as issuer of the Bonds, and to MEFA about the tax matters described above, it is not expected to change any of the conclusions about tax treatment described above.

The delivery of the opinions described in the Offering Statement does not constitute a guarantee as to the outcome if the Internal Revenue Service were to challenge an Owner’s position or an assertion that there is no reasonable basis for the Internal Revenue Service to challenge the conclusions reached in the opinions, and such opinions reflect a lesser degree of certainty than is typical in connection with tax-exemption opinions delivered upon issuance of Commonwealth bonds.

Transfer or Sale of the Tuition Certificates

In addition to other transfers permitted under the Enrollment Agreement, the Owner may, at the time of purchase of a Tuition Certificate or thereafter, designate (or change the designation of) a Successor Owner, who will become the Owner of the Tuition Certificate and the rights of the Owner under the Enrollment Agreement in the event of the death of the designating Owner prior to use of the Tuition Certificate proceeds. See Section 4.06 of the Enrollment Agreement attached as Appendix A to this Update.

Updated Information Relating to Program Recordkeeper

MEFA has served as Program Recordkeeper for the U.Plan since February, 1999. During the term of the Tuition Certificates, MEFA from time to time may transfer all or certain aspects of the recordkeeping function to one or more third-party contractors, and may resume direct maintenance of such recordkeeping functions upon termination of such contracts.

Updated Information Relating to Certain Investment Considerations

Alternative Savings and Investment Products

A variety of other savings and investment products are available to parents and other persons who wish to provide for the future payment of tuition and other higher education costs for their children or other beneficiaries. There are substantial differences in the structure, benefits, risks and liquidity provided by each such program, and the appropriateness of any such program, and the relative benefits of participating in any particular program, may depend on the program, the individual, the timeframe and other factors. No assurance can be provided that the performance of the U.Plan and the Tuition Certificates in general or for any specific Owner or Qualifying Beneficiary will compare favorably with existing alternative savings and investment products or ones that may be developed in the future.

In particular, the provisions of Section 529 of the Internal Revenue Code of 1986, as amended, permit the establishment of state-sponsored prepaid tuition plans and state-sponsored savings plans for higher education expenses (“qualified tuition programs”) that are eligible for tax-favored treatment, specifically the deferral of federal income taxes until distributions are made from such programs to the contributor or designated beneficiary. Distributions from qualified tuition programs which are applied to pay a beneficiary’s qualified higher education expenses are tax-exempt. Most states, including Massachusetts, have developed programs that are designed to qualify for such tax-advantaged status. Certain Section 529 savings programs, including the U. Fund program launched by MEFA in March, 1999, are invested in investments that may be less secure than the Commonwealth general obligation bonds that back the Tuition Certificates, and which may provide a more volatile, but potentially higher, investment return over certain time periods than an investment in Tuition Certificates. Certain of such savings programs (including the U. Fund) also permit use of accrued savings at any qualifying higher education institution in the applicable state or nationwide without penalty, in contrast to the U.Plan’s differentiation between use of Tuition Certificate proceeds at Participating Institutions in Massachusetts and use of such proceeds elsewhere. Certain of such Section 529 programs (including the U. Fund) also permit savings for a portion of room and board expenses, unlike the U.Plan, which is designed to promote savings for tuition and mandatory fees, and may have more flexible provisions for withdrawals of contributions for other uses (subject to a penalty, except in certain cases). In addition, certain amounts invested in such Section 529 programs qualify for certain special protections from creditors under federal bankruptcy law. However, such Section 529 programs (including the U. Fund) generally do not provide the tuition “lock-in” features that the U.Plan provides at Participating Institutions, and, unlike the U.Plan, distributions from such Section 529 programs, under current law, will be fully taxable to the distributee at the time of distribution for federal income tax purposes unless applied to qualified higher education expenses.

Pursuant to amendments to the Code that became effective in 2002, public and private higher education institutions, acting singly or jointly with other higher education institutions, may establish tuition credit or tuition certificate programs that operate as prepaid tuition programs and that are eligible for tax-favored treatment as described above under Section 529 of the Code. Such programs may be established from time to time and may offer tuition “lock-in” features similar to those offered by the U.Plan at certain public and/or private colleges and universities outside Massachusetts and/or at certain colleges and universities within Massachusetts. For example, the Tuition Plan Consortium, a non-profit organization, launched the “Independent 529 Plan”, a nationwide prepaid tuition program involving certain private colleges, in 2003. Some of the private colleges and universities participating in the U.Plan also participate in the Independent 529 Plan. The selection of participating higher education institutions, the investment risks involved, the financial benefits to participants, the liquidity of the investment and

the federal and state income, gift and estate tax treatment of interests in such programs, among other features, may differ from those applicable to participation in the U.Plan.

In addition, the provisions of Section 530 of the Code permit annual contributions of up to \$2000 (depending on the contributor’s modified adjusted gross income) to a Coverdell education savings account (“Coverdell account”) for a designated beneficiary, which account may be invested as determined by the contributor. The investment earnings on investments in a Coverdell account are tax-deferred until distribution and tax-exempt if applied to the designated beneficiary’s qualified higher education expenses or to qualified primary and secondary education expenses at any eligible educational institution. Amounts so invested may be withdrawn at any time, but are subject to income tax and, subject to certain exceptions, an additional 10% penalty upon withdrawal if not applied to the beneficiary’s qualified higher education expenses or qualified primary and secondary education expenses.

Because the U.Plan requires a long-term commitment of contributions, potential Purchasers should carefully evaluate the different features of the U.Plan and other college savings alternatives, including Section 529 programs (such as the U. Fund and prepaid tuition programs) and Coverdell accounts, in deciding whether to invest in the U.Plan.

MEFA’s U. Fund Program

In March, 1999, MEFA launched a college savings program, called the U. Fund, which is designed to qualify as a qualified state tuition program under Section 529 of the Code, as described above. Unlike the U.Plan, the U. Fund does not guarantee a particular percentage of tuition at participating Massachusetts institutions, but participants are able to apply amounts contributed to the U. Fund, together with investment earnings thereon, to pay tuition and, subject to certain limitations, room and board, at qualifying educational institutions nationwide. The U. Fund is invested in asset allocation portfolios allocated among domestic and international equity mutual funds, bond mutual funds and money market funds. As a general matter, the investment assets in the U. Fund are less conservative than the Commonwealth general obligation bonds that back the U.Plan’s Tuition Certificates. The U. Fund is also a more liquid investment than the U.Plan, although (under current law) withdrawals from the U. Fund, if made for purposes other than the payment of the designated beneficiary’s qualified higher education expenses, are subject to income tax on the withdrawn earnings and, subject to certain exceptions, to a 10% surtax. As noted above, certain amounts invested under the U. Fund are protected from creditors in the event of a bankruptcy by the account owner; amounts invested under the U.Plan may not qualify for such protections. The U.Plan and the U. Fund present distinctive approaches to saving for a beneficiary’s higher education, and any potential Purchaser should carefully evaluate which approach or combination of approaches to higher education savings is appropriate in light of such potential Purchaser’s objectives and circumstances. Information about the U. Fund may be obtained by telephone call to (800) 544-2776.

Appendix A Enrollment Agreement (Terms and Conditions of Participation in the U.Plan Program)

SECTION I - INTRODUCTION AND PROGRAM

Description

This Enrollment Agreement contains the basic terms and conditions of The U.Plan: The Massachusetts Prepaid Tuition Program (the “Program”), and the obligations and responsibilities of the Purchaser, the Owner and the Massachusetts Educational Financing Authority (“MEFA”) in connection with the Purchaser’s and Owner’s participation in the Program. Capitalized terms used in this Enrollment Agreement are defined herein or in the Definitions Section which is at the end of the Enrollment Agreement.

BY SIGNING A PURCHASE REQUEST FORM, YOU AGREE TO BE SUBJECT TO THE TERMS AND CONDITIONS OF THIS ENROLLMENT AGREEMENT. BY ACCEPTING A PURCHASE REQUEST FORM, MEFA AGREES TO BE SUBJECT TO THE TERMS AND CONDITIONS OF THIS ENROLLMENT AGREEMENT.

Return on Tuition Certificates Not Applied to Program Uses

In the event an Owner is unable to apply the proceeds of a Tuition Certificate to Program Uses, the Owner will receive, after deduction of the Stabilization Fee, the original Investment Amount plus interest calculated on such amount at CPI flat. CPI is an index that measures the price changes from year to year of a particular basket of goods and services. No assurance can be provided that the United States Department of Labor, which publishes the index, will continue to use the same basket of goods and services. From time to time proposals are made and/or adopted, the effect of which may be to adjust the basket of goods and services and computation methodology used to determine CPI in a manner which may reduce the rate of increase of the CPI. It is unknown whether any such adjustments will be implemented during the term of the Tuition Certificates or, if adjustments are implemented, what their effect will be on the amount of interest paid on Tuition Certificates. However, any such adjustments would not affect the percentages of Tuition at each Participating Institution to which a Qualifying Beneficiary will be entitled.

For certain periods of time in which the Program has been in effect, tuition and mandatory fees at certain public Participating Institutions have decreased.

Inability to Use Tuition Certificate in Maturity Year

In order to exercise the option of applying the Tuition Certificate to Program Uses in an academic year after the maturity year, the Owner will be required to maintain the payment received at maturity on the Tuition Certificate in an Owner Account until the money is applied to Program Uses. Although the Owner will receive interest during such post-maturity period at what is expected to be a short-term taxable or tax-exempt rate, such interest may be less than the investment return the Owner would receive during such period in another savings or investment vehicle and will be further reduced by the Post Maturity Fee.

Financial Aid Implications

Prepaid tuition programs, including the U.Plan, are treated like other forms of nonretirement savings, with the exception that under current law the value of a prepaid tuition certificate owned by a dependent student or in a custodial account for a dependent student is not considered a student asset for purposes of determining the student’s eligibility for federal financial aid and, is treated as a parent asset. If a prepaid tuition certificate is owned by a financial aid applicant’s parent (or treated as owned by the applicant’s parent in the case of a certificate owned by a dependent student or in a custodial account for a dependent student), under current law as a parental asset a maximum of 5.64% of the value of a prepaid tuition certificate would be taken into account for purposes of federal financial aid eligibility. Parental assets generally have a lesser impact than student assets (which are generally taken into account at 20% of their value) for purposes of determining federal financial aid eligibility. A prepaid tuition certificate that is not owned by a parent or student generally is not considered in the student’s need analysis for federal financial aid purposes.

This Enrollment Agreement, together with the Purchase Request Form completed by you, form the Contract between MEFA and you. It sets forth the rights, responsibilities and duties which you and MEFA each have regarding the money which you deposit with MEFA for the purchase of a Tuition Certificate. It also sets forth the rights, responsibilities and duties which you and MEFA each have in connection with each Tuition Certificate you receive, including rights, responsibilities and duties relating to payments made on each Tuition Certificate.

The Program Description and Offering Statement (the “Offering Statement”) to which this Enrollment Agreement is attached provides a description of the U.Plan and how it works, and important information about your rights, responsibilities and duties and those of MEFA and other participants in the Program. You should read the Offering Statement before you read this Enrollment Agreement; a general understanding of how the U.Plan works will be helpful to you in understanding the provisions and technicalities of this Enrollment Agreement. The Offering Statement also contains

information about how to obtain a separate Information Statement containing financial and other information about the Commonwealth.

The Contract is subject to such rules and procedures (the “Rules”) as may be adopted by MEFA, which Rules may be revised from time to time by MEFA, provided that the Rules and any changes to the Rules will not materially impair the benefits you will receive under the Program, or materially change your obligations under the Contract.

SECTION II - TUITION CERTIFICATE

Purchases

Section 2.01.

Purchaser’s Commitment to Purchase Tuition Certificate

The Purchaser will pay to MEFA, at the time each Purchase Request Form is submitted, the Deposit for each Tuition Certificate that the Purchaser intends to buy in the current Enrollment Period. In the Purchase Request Form, the Purchaser will designate for each Tuition Certificate to be purchased: (1) the Investment Amount desired and (2) the Maturity Date. By delivering the Purchase Request Form and Deposit, the Purchaser makes a non-cancelable commitment to buy Tuition Certificates with the specified Maturity Dates and in the designated Investment Amounts or in such lesser Investment Amounts as can be allocated in response to such Purchase Request Form pursuant to Section 2.03. Such commitment will be non-cancelable after July 15, 2010. The Purchaser may cancel the commitment to purchase a Tuition Certificate by delivering written notice to MEFA no later than July 15, 2010, in which case such Deposit will be refunded to the Purchaser without interest.

Section 2.02.

Purchaser’s Deposit

(a) MEFA will keep the entire Deposit until it determines under Section 2.03 whether, in light of the aggregate demand for Tuition Certificates of the requested maturity or maturities, the Deposit exceeds the amount that can be invested in the requested Tuition Certificates. For the 2010 Enrollment Period, such determination will be made on or about July 15, 2010, or as soon thereafter as possible. If MEFA determines that due to oversubscription a portion of the Deposit cannot be applied to the purchase of the requested Tuition Certificates, MEFA will refund to the Purchaser such portion of the Deposit, together with interest on such portion at a rate equal to the Refund Rate for the period of time the refunded portion of the Deposit was held by MEFA.

(b) MEFA will keep the Deposit, less any portion refunded under the prior paragraph, until the earlier of (1) the date the Bonds are issued and the Deposit is applied to the purchase of the Tuition Certificates requested by the Purchaser (which is expected to be on or about August 1, 2010 for 2010 Tuition Certificates, but which may be a later date under certain circumstances) and (2) the date, if any, on which MEFA is informed that Bonds in the requested maturity or maturities will not be issued during the Applicable Issuance Period. If an event described in clause (2) occurs, MEFA will refund to the Purchaser as promptly as practicable any portion of the Deposit that cannot be applied to the purchase of the requested Tuition Certificates.

(c) Except in the case of refunds described in Section 2.02(a), the Purchaser will not be entitled to receive any interest on any portion of the Deposit. Tuition Certificates will not begin to accrue interest until they are issued, and, upon issuance, will accrue interest from the date they are issued (if the Tuition Certificates are issued on August 1) or from the preceding August 1 (if the Tuition Certificates are issued on a date other than August 1).

(d) MEFA will place the Deposit in an account dedicated to the holding of Program deposits, to be applied only as provided in this Enrollment Agreement. MEFA will not invest such money other than in notes or bonds issued or guaranteed by the United States, investments fully collateralized by such securities, money market funds, or the Massachusetts Municipal Depository Trust, maturing no later than the date such money is to be applied under this Enrollment Agreement.

(e) A portion of the Deposit used to purchase a Tuition Certificate may be applied upon issuance of the Bonds to pay allocable issuance costs of the Bonds on behalf of the Commonwealth. This will not affect or reduce the

Investment Amount of any Tuition Certificate received by the Purchaser or any refund to which the Purchaser is entitled.

Section 2.03.

Investment Amount of Tuition Certificates

If the demand for Tuition Certificates of a particular Maturity Date exceeds the amount of Commonwealth College Opportunity Bonds with such Maturity Date to be issued during the Applicable Issuance Period, the Investment Amount of each Tuition Certificate of such maturity received by the Owner will be allocated according to methods and priorities developed by MEFA. By specifying a proposed Investment Amount for a Tuition Certificate in a Purchase Request Form, the Purchaser agrees that the Deposit made with respect to such Tuition Certificate may be applied to the purchase of a Tuition Certificate of the designated Maturity Date in such Investment Amount or in such lower Investment Amount as may be allocated to the Owner by MEFA. Other than as described above, there is no limit on the Investment Amount of any Tuition Certificate.

Section 2.04.

Certificates Maintained in Book-Entry Form; Annual Statements

Tuition Certificates will be issued and maintained in book-entry form, and the Owner will not receive physical certificates. A statement evidencing the issuance and ownership of each Tuition Certificate, and the percentages recorded on each Tuition Schedule, will be delivered to the Owner by the Program Recordkeeper as soon as possible after the Issue Date of the Related Program Bonds, and annually thereafter. From time to time the Tuition Schedule may be amended to reflect the participation in the Program of additional Participating Institutions and the applicable Educational Services Percentages, and such amendment will be reflected on the next statement sent to the Owner.

Section 2.05.

Interest Rates on Tuition Certificates

This section sets forth technical information about the interest rates payable on the Tuition Certificates. Please note, however, that, as described in Section VI, the Owner is required to assign to MEFA certain portions of the interest received on each Tuition Certificate (the Assigned Payments). After deduction of such Assigned Payments, the amount of interest that the Owner will obtain on any portion of the money invested in a Tuition Certificate that is not applied to Program Uses is a variable rate equal to the annual increase in the Consumer Price Index — All Urban Consumers, All Items (“CPI flat”) from the Issue Date until the Maturity Date of the Tuition Certificate, compounded as of each August 1.

Each Tuition Certificate delivered to an Owner will bear interest as follows: (1) interest on the Investment Amount at an annual rate determined by the Commonwealth prior to issuance of the Bonds (which is expected to be 50 basis points for Tuition Certificates issued in 2010), payable on each August 1 and February 1 (the “Current Coupon”), which interest is assigned to MEFA under Section VI of the Enrollment Agreement; and (2) interest on the Accreted Amount at an annual rate equal to the Standard Accrual Rate, payable on the Maturity Date (the “Maturity Coupon”).

SECTION III - CONTRACT BENEFITS

Section 3.01.

Use of Tuition Certificate in Maturity Year

The Owner must designate a Qualifying Beneficiary for each Tuition Certificate purchased. A Qualifying Beneficiary who is a Student will be entitled to receive the Designated Portion of the Allocable Educational Services at any Participating Institution in any Maturity Year, upon payment to the Participating Institution of the Tuition Certificate Proceeds. To receive such Allocable Educational Services, an Owner must notify MEFA at least 30 days before the Tuition Payment Date on which the Owner desires to apply the Tuition Certificate Proceeds and must specify the Participating Institution at which such Tuition Certificate Proceeds are to be applied and the Designated Portion of the Allocable Educational Services to be purchased. Upon receipt of such notice and confirmation of the amount payable to the Participating Institution, MEFA will authorize payment of the Maturity Proceeds from the Owner Account to the Participating Institution

on or before the applicable Tuition Payment Date, as provided in Section V of the Enrollment Agreement, or, if feasible, will transfer the Maturity Proceeds on behalf of the Owner directly to the Participating Institution.

Section 3.02.

Use of Tuition Certificate Before Maturity Year

If the Owner of a Tuition Certificate wants to apply Tuition Certificate Proceeds for a Qualifying Beneficiary at a Participating Institution during a Qualifying Year other than the Maturity Year, the Owner must notify MEFA at least 30 days before the Tuition Payment Date on which the Owner wants to apply the Tuition Certificate Proceeds and must specify the Participating Institution at which such Tuition Certificate Proceeds are to be applied and the Designated Portion of the Allocable Educational Services to be purchased. Subject to the existence of Program moneys available for this purpose, as determined by MEFA in its discretion, MEFA will purchase the designated Tuition Certificate on the applicable Early Tender Date at a price equal to the Early Tender Price. No assurance can be given that MEFA will purchase the Tuition Certificate prior to maturity. If MEFA determines that moneys are not available to purchase the Tuition Certificate on an Early Tender Date, the Owner will not be able to apply the Tuition Certificate to purchase Allocable Educational Services in such Qualifying Year. If MEFA does purchase, or cause to be purchased, the Tuition Certificate on the Early Tender Date, a Qualifying Beneficiary who is a Student will be entitled to receive the Designated Portion of the Allocable Educational Services at any Participating Institution in such Qualifying Year, upon payment to the Participating Institution of the Pre-Maturity Proceeds. MEFA will deposit, or cause to be deposited, the Early Tender Price to the Owner Account and upon confirmation of the amount payable will authorize payment of the Pre-Maturity Proceeds to the Participating Institution designated by the Owner on or before the applicable Tuition Payment Date, as provided in Section V of the Enrollment Agreement, or, if feasible, will transfer the Early Tender Price on behalf of the Owner directly to the Participating Institution.

Section 3.03.

Use of Tuition Certificate After Maturity Year

Each Tuition Certificate will entitle a Qualifying Beneficiary who is a Student to receive from any Participating Institution in any Post Maturity Year, upon payment to the Participating Institution of Post Maturity Proceeds, a percentage of Educational Services equal to the Post Maturity Educational Services Percentage. An Owner must notify MEFA at least 30 days before the Tuition Payment Date on which the Owner desires to apply the Post Maturity Proceeds and must specify the Participating Institution at which such Post Maturity Proceeds are to be applied and, if less than the entire Post Maturity Proceeds are to be applied to obtain Educational Services at a Participating Institution, the portion of Post Maturity Proceeds to be so applied. Upon receipt of such notice and confirmation of the amount payable, MEFA will authorize payment of any portion of the requested amount of Post Maturity Proceeds from the Owner Account to the Participating Institution on or before the applicable Tuition Payment Date, as provided in Section V of the Enrollment Agreement.

Section 3.04.

Remaining Tuition Charges Unaffected

Nothing in the Contract affects or limits the Tuition charged by a Participating Institution for any portion of Educational Services not paid for with a Tuition Certificate.

Section 3.05.

Refunds of Tuition Paid for with Tuition Certificates

If a Qualifying Beneficiary becomes entitled to a refund of all or any portion of Tuition paid to such Participating Institution in a year for which such Participating Institution has accepted Tuition Certificate Proceeds or Post Maturity Proceeds for such Qualifying Beneficiary, the Participating Institution will refund to or as instructed by MEFA a portion of the Tuition refund due to the Student under the Participating Institution’s refund procedures that is proportionate to the percentage of Educational Services provided by the Institution in exchange for Tuition Certificate Proceeds or Post Maturity Proceeds. If the Owner notifies MEFA within 30 days after such refunded amount is paid to MEFA that the Owner can apply all or a

portion of the refunded amount as a payment or prepayment of Educational Services for a Qualifying Beneficiary or Secondary Qualifying Beneficiary at a Participating Institution, MEFA will pay all or a portion of the refunded amount to the Participating Institution so designated. If the Owner does not so notify MEFA or if the Owner designates only a portion of the refunded amount to be used at a Participating Institution, MEFA will pay the remaining portion of the refunded amount to the Owner after deducting the Stabilization Fee.

Section 3.06.

Representation as to Qualifying Beneficiary Status

Each designation by an Owner of a Qualifying Beneficiary will constitute a representation by such Owner that the individual so designated is a Qualifying Beneficiary.

SECTION IV - TRANSFER OF TUITION

Certificates; Qualifying Beneficiaries

Section 4.01.

Transfer of Tuition Certificates

The Owner shall not transfer Tuition Certificates or redesignate a Qualifying Beneficiary except as permitted under this Section IV.

Section 4.02.

Restrictions on Assignment or Transfer by Owner

Except as expressly provided in the Contract, neither the Tuition Certificates nor any interest, rights or benefits under the Contract or the Tuition Certificates may be transferred or assigned by an Owner. Neither MEFA nor the Commonwealth is obligated to purchase a Tuition Certificate before it matures, and because of the unique features of the Tuition Certificate and the transfer restrictions imposed under this Enrollment Agreement, you, the Owner, may be unable to sell or otherwise transfer title to the Tuition Certificate before it matures.

Section 4.03.

Sale or Transfer of Tuition Certificates

(a) The Owner may sell or transfer the Tuition Certificate to any person located by the Owner at whatever price is agreed to by the Owner and such purchaser, but (except in the case of transfers under Section 4.03(c), 4.05 or 4.06) such transferee no longer will be entitled to special benefits at Participating Institutions (that is, such transferee will not be entitled to the Program benefits described in Sections 3.01, 3.02 or 3.03 of the Enrollment Agreement.) Such transferee will be entitled to receive on the Maturity Date the Owner Balance, which is the amount payable on the Tuition Certificate less the Stabilization Fee, and equals the initial Investment Amount of the Tuition Certificate plus interest at CPI flat. As a condition to such transfer, the transferee will be required to assign an amount equal to the Stabilization Fee to MEFA and to authorize the transfer of the Stabilization Fee from the Owner Account to MEFA on the Maturity Date. As a further condition to such transfer, the Owner will sign an assignment of the Tuition Certificate. MEFA may impose a Transfer Fee payable by the transferring Owner in connection with any such transfer.

(b) If an Owner experiences extraordinary circumstances which require such Owner to have access to the moneys invested in a Tuition Certificate prior to the Maturity Date of such Tuition Certificate, such Owner may request a financial hardship withdrawal by notifying MEFA. No assurance can be given that any such request will be honored, and neither the Commonwealth nor MEFA are under any obligation to make funds available for such purpose or otherwise facilitate such hardship withdrawal.

If MEFA in its discretion elects to purchase such Tuition Certificate, such purchase will be at a price equal to the Accreted Amount of the Tuition Certificate on the August 1 preceding such withdrawal, less the Stabilization Fee, less an Early Withdrawal Fee that MEFA may impose to cover the costs of such transaction. The effect of the previous sentence is that the Owner will receive the Investment Amount of such Tuition Certificate plus interest until the August 1 preceding the withdrawal date at CPI flat, minus any Early Withdrawal Fee. Any such purchase will occur as soon after August 1 of the withdrawal year as is practicable.

(c) As an alternative to a sale under clause (a) or clause (b), the Owner may notify MEFA of the availability of the Owner’s Tuition Certificate for resale through the Program on the next August 1, or any other date on which such resale may be feasible. MEFA, if so notified, in its discretion may seek to allocate or cause the Tuition Certificate to be allocated to an applicant for a Tuition Certificate, but will not be obligated to do so and may be unable to do so. If the Tuition Certificate is allocated to a new buyer, MEFA or the Agent will provide for a direct transfer of ownership from the Owner to the buyer. The Program Custodian will register a transfer of the Tuition Certificate from the Owner to the transferee. The price at which a Tuition Certificate will be purchased from the Owner will be the Accreted Amount of such Tuition Certificate on the Pre-Transfer Accretion Date at the Standard Accrual Rate. A Stabilization Fee (measured as of the Pre-Transfer Accretion Date) will be payable to MEFA as provided in Section 5.03 of the Enrollment Agreement and will be deducted from the purchase price paid to the Owner. The effect of the prior two sentences is that, if the Owner is able to sell the Tuition Certificate under the provisions of this paragraph, after deduction of the portion of the payment that the Owner has assigned to MEFA, the cash amount the Owner will obtain will be the initial Investment Amount of the Tuition Certificate plus interest at CPI flat until the August 1 preceding the Transfer Date or, if the Transfer Date is August 1, such Transfer Date. In connection with any such transfer, a Transfer Fee may be imposed in an amount sufficient to cover costs of processing such transfer. The Transfer Fee may be deducted from the amount paid to the Owner. As a condition to the sale and transfer of the Tuition Certificate, the Owner will assign to the transferee all of the Owner’s rights and obligations under the Contract. If the Transfer Date is not an August 1, any transferee may be required to pay or assign to MEFA the interest accrued on the Tuition Certificate from the Pre-Transfer Accretion Date to the Transfer Date.

Section 4.04.
Changes in Qualifying Beneficiary; Additional Qualifying Beneficiary

The Owner may, upon payment of a Change of Beneficiary Fee, change the Qualifying Beneficiary of a Tuition Certificate from time to time by providing written notice to MEFA, together with a satisfactory representation to MEFA that the substitute Qualifying Beneficiary is a Qualifying Beneficiary Relative. When the proceeds of a Tuition Certificate are applied to Program Uses for the benefit of a designated Qualifying Beneficiary, any Excess Proceeds will be applied solely as provided in Section 5.04 of the Enrollment Agreement. Proceeds of a Tuition Certificate shall be applied for the benefit of no more than two Qualifying Beneficiaries.

Section 4.05.
Transfer of Tuition Certificate to Qualifying Beneficiary or Relative

The Owner may transfer ownership of a Tuition Certificate to a Qualifying Beneficiary at any time without restriction, provided that if the Qualifying Beneficiary is a minor, ownership shall be transferred to a custodian for such minor named in compliance with the Uniform Gifts to Minors Act or Uniform Transfers to Minors Act or similar laws, as applicable. If the Owner of a Tuition Certificate is a minor under the Uniform Gifts to Minors Act or Uniform Transfers to Minors Act, any rights of the custodian relating to the Tuition Certificate are subject to the limitations imposed by these statutes.

For example, the Qualifying Beneficiary of the Tuition Certificate will be the minor, and the custodian is not entitled to change the Qualifying Beneficiary to someone else. In addition, the custodian would not be entitled to transfer ownership of the Tuition Certificate, except under circumstances, if any, where such action is permissible under the applicable statute. The Owner also may transfer ownership of a Tuition Certificate to any individual who certifies to MEFA that the Qualifying Beneficiary designated by the Owner prior to such transfer is also a Qualifying Beneficiary of the transferee. In connection with any such transfer, MEFA may impose a Family Transfer Fee.

Section 4.06.
Designation of Successor Owner; Transfer to Successor Owner

The Owner may designate an individual as a Successor Owner who will assume ownership of the Tuition Certificates and rights of the Owner under this Enrollment Agreement upon the Owner’s death. The Owner may make such designation by completing a Successor Owner designation on the form provided by MEFA. Any such designation of a Successor Owner may be

changed by the Owner to a different individual by the filing of a subsequent designation, on the form provided by MEFA, repealing the prior designation and designating a new Successor Owner. Any designation of a Successor Owner is intended to override, to the extent permitted by law, any provisions with respect to the applicable Tuition Certificate and rights under this Enrollment Agreement included in a will or codicil, and will include a representation that the Owner has notified or will promptly notify the Successor Owner of his/her status as Successor Owner. Upon the death of the Owner, the Successor Owner will become, and shall have all rights of, the Owner under this Enrollment Agreement, including the right to direct MEFA to transfer Tuition Certificate proceeds to the Owner instead of for the benefit of the Qualifying Beneficiary and the right to designate a Successor Owner.

SECTION V - OWNER ACCOUNT
Section 5.01.
Establishment of Owner Account; Fees for Owner Account

On or before the initial date on which any moneys are deposited thereto pursuant to the Contract, MEFA will establish the Owner Account at the Program Account Institution, and by accepting a Tuition Certificate the Owner authorizes the establishment of such account. At MEFA’s election, the Owner Account may be established as a book entry in the Owner’s name within an account established by MEFA to hold proceeds of Tuition Certificates, or in a segregated account maintained directly in the Owner’s name. Amounts in an Owner Account will be invested in bank deposits, notes or bonds issued or guaranteed by the United States, investments fully collateralized by such securities, taxable or tax-exempt money market funds, or the Massachusetts Municipal Depository Trust, maturing or available no later than the date such money is expected to be applied under this Enrollment Agreement. Amounts in an Owner Account will earn interest (which may be taxable) at a short-term interest rate based on the earnings realized through investment of such amounts. Except as otherwise provided in this Enrollment Agreement and the Rules, MEFA’s confirmation that withdrawals or transfers from the Owner Account have been calculated according to the provisions of this Enrollment Agreement will be required prior to each withdrawal or transfer from the Owner Account. During each year after the maturity year in which the Owner Account is open, MEFA reserves the right to assess a Post Maturity Fee, which fee, if assessed, shall be payable by the Owner and, if not paid on a timely basis, may be deducted by the Program Account Institution from investment earnings payable to the Owner as described in Section 5.02 of the Enrollment Agreement.

Section 5.02.
Withdrawal of Investment Earnings on Owner Account

Investment earnings on amounts on deposit in the Owner Account will be paid to the Owner upon the withdrawal of all amounts on deposit in the Owner Account, subject to the Program Account Institution’s right to deduct the Post Maturity Fee pursuant to Section 5.01.

Section 5.03.
Pledge of Owner Account

MEFA will charge the Owner, and the Owner by accepting a Tuition Certificate agrees to pay, the fees described in the Contract when and if due, including but not limited to the semi-annual administrative fee described in Section VI of the Enrollment Agreement and the Stabilization Fee, and, if assessed, any applicable Transfer Fee, Change of Beneficiary Fee, Additional Beneficiary Fee or Post Maturity Fee. In order to secure the payment of such fees if and when payable, the Owner, by accepting the Tuition Certificate, grants, pledges and assigns to MEFA a security interest in the funds deposited to the Owner Account, and irrevocably authorizes MEFA to withdraw or cause to be withdrawn from the Owner Account when due under the terms of this Enrollment Agreement an amount equal to the Stabilization Fee and any applicable Change of Beneficiary Fee, Additional Beneficiary Fee or Post Maturity Fee.

Section 5.04.
Deposits to and Withdrawals from Owner Account

(a) On the Maturity Date of a Tuition Certificate, MEFA will cause to be deposited to the Owner Account an amount equal to the Accreted Amount

of such Tuition Certificate calculated at the Standard Accrual Rate. If a Tuition Certificate is purchased from the Owner before the Maturity Date under Section 3.02 of this Enrollment Agreement, MEFA will deposit, or cause to be deposited, to the Owner Account on the Early Tender Date an amount equal to the Early Tender Price, provided that if on such Maturity Date or Early Tender Date MEFA has been directed to transfer such moneys to a Participating Institution, MEFA may effectuate a direct transfer of such moneys on behalf of the Owner to the Participating Institution.

(b) Subject to MEFA’s prior confirmation that the amount withdrawn or transferred has been properly calculated, the Owner may withdraw moneys on deposit in the Owner Account or may direct that payment be made to a Participating Institution for Program Uses as provided in Section 3.01, 3.02 or 3.03 of this Enrollment Agreement. At the time of withdrawal or payment from the Owner Account relating to a particular Tuition Certificate, other than payments under Section VI of the Enrollment Agreement, the Owner Account will be closed out with regard to such Tuition Certificate. Excess Proceeds of such Tuition Certificate on deposit in the Owner Account may be applied, as directed by the Owner: (1) to prepay tuition in one or more subsequent years at the Participating Institution attended by the Qualifying Beneficiary or the Secondary Qualifying Beneficiary, but only if and to the extent that the Participating Institution allows such prepayment; (2) to pay for the Designated Portion of Allocable Educational Services or the Post Maturity Educational Services Percentage at a Participating Institution for a Secondary Qualifying Beneficiary; or (3) to pay the Owner Balance to or for the account of the Owner as instructed by the Owner. If not previously closed, the Owner Account relating to a Tuition Certificate will be closed after the beginning of the sixth academic year following the academic year that begins in the maturity year of the Tuition Certificate, and the appropriate portion of any balance remaining in such Owner Account at the time it is closed will be paid over to the Owner as though the Owner had made a withdrawal for a purpose other than Program Uses. Upon the closing out of the Owner Account, any Stabilization Fee not previously paid will be transferred by MEFA to the Stabilization Fund. Any designation by the Owner of a Secondary Qualifying Beneficiary shall be subject to the Owner’s payment of an Additional Beneficiary Fee.

(c) In the case of a Tuition Certificate that has been transferred as specified in Section 4.03(a) of the Enrollment Agreement, MEFA is authorized to close out the Owner Account with respect to such Tuition Certificate on its Maturity Date, without notice or approval from the Owner, by authorizing the payment to or for the Owner’s account of the Owner Balance and transferring the Stabilization Fee to the Stabilization Fund.

SECTION VI - ADMINISTRATIVE FEES; ASSIGNED PAYMENTS
MEFA will charge the Owner, in addition to any other fees specified in the Contract, and the Owner by accepting the Tuition Certificate agrees to pay, only from the Current Coupon interest on each Tuition Certificate, a semi-annual administrative fee equal to payments received on the Current Coupon. The Owner by accepting the Tuition Certificate irrevocably assigns to MEFA and authorizes MEFA to receive on behalf of the Owner from the Program Custodian, payments on the Current Coupon and apply such payments to such administrative fee. The Owner also agrees to pay the Stabilization Fee when required under this Enrollment Agreement, and, if a Stabilization Fee becomes payable, irrevocably assigns to MEFA its interest in an amount of funds deposited in the Owner Account equal to the Stabilization Fee. Such Assigned Payments will be used by MEFA to pay for Program operating costs and related program expenditures.

SECTION VII - MISCELLANEOUS
Provisions

Section 7.01.
Notices and Changes

All notices, changes, and choices made under the Contract must be in writing, signed by the Owner and received by MEFA at the address specified by MEFA, along with any supporting documentation MEFA may reasonably require and any applicable administrative fees.

Section 7.02.
Additional Fees Charged by Participating Institutions
Participating Institutions may charge fees in addition to the Tuition and Mandatory Fees described herein. Such additional fees shall not be payable from Tuition Certificate Proceeds.

Section 7.03.
Notice of Intent to Apply Contract Benefits
The applicable Owner must submit written notification to MEFA at least thirty (30) days prior to the projected commencement date for utilization of the Contract benefits by a Qualifying Beneficiary.

Section 7.04.
Identification
To avoid back-up withholding on amounts payable to or on behalf of a Purchaser, Owner or Qualifying Beneficiary under the Contract, the Owner and Qualifying Beneficiary shall submit when required a valid and completed Internal Revenue Service Form W-9.

Section 7.05.
Document Replacement or Copies
A Purchaser may obtain replacements of Program documents or copies of documents from MEFA. A minimum fee of \$5.00 per document shall be assessed.

Section 7.06.
Annual Statements
Each Owner will receive an annual statement from the Program Recordkeeper indicating the Owner Accreted Amount of each Tuition Certificate and the aggregate Educational Services Percentages by Maturity Date and Participating Institution to which the Qualifying Beneficiary is entitled under the Program.

Section 7.07.
Disclaimers
Nothing in the Contract shall be construed as a promise or a guarantee by MEFA, employees or consultants of MEFA, the Commonwealth or any Participating Institution that a Qualifying Beneficiary (a) will be admitted to a Participating Institution; (b) will be admitted to a particular Participating Institution; (c) will be allowed to continue to attend a Participating Institution after having been admitted; (d) will be graduated from a Participating Institution; or (e) if admitted to a Participating Institution, will meet that institution’s residency requirements for In-State Tuition. Nothing in the Contract shall constitute a promise or guarantee that each or any Participating Institution will be in existence at the time a Qualifying Beneficiary seeks to enroll or apply a Tuition Certificate. The benefits described in the Contract are conditioned on timely payments by the Commonwealth on the Related Program Bonds. Nothing in the Contract shall be construed as a promise or guarantee by MEFA or any Participating Institution that the Commonwealth will make such timely payments.

Section 7.08.
Waiver of Rules
MEFA, in its discretion, may waive provisions of the Contract and of the Rules to prevent hardship to the Purchaser, Owner or the Qualifying Beneficiary.

Section 7.09.
Interpretation
The Contract is to be interpreted under the laws of the Commonwealth.

Section 7.10.
Severability
In the event that any clause or portion of the Contract is found to be invalid or unenforceable by a court or competent jurisdiction, that clause or portion shall be severed from the Contract and the remainder of the Contract will remain in full force and effect.

Section 7.11.
Limited Recourse

The obligations of MEFA under this Enrollment Agreement and the Contract are limited obligations payable only from moneys received by or available to MEFA in connection with the Program, and no recourse shall be had by the Purchaser, Owner or any other party against the general funds of MEFA

Definitions Section

“**Accreted Amount**” means, with respect to a Commonwealth College Opportunity Bond or Tuition Certificate, the initial principal amount of such Bond or the Investment Amount of such certificate, as applicable, increased on each August 1 to and including the Maturity Date, or, if applicable, the Early Tender Date or Pre-Transfer Accretion Date, by adding to the Accreted Amount in effect on the prior August 1 (or, in the case of the August 1 immediately following the Issue Date, in effect on the Issue Date) the dollar amount obtained by applying the Standard Accrual Rate or Program Accrual Rate, as applicable, in effect since the prior August 1 (or Issue Date) to the Accreted Amount as of such prior August 1 (or Issue Date).

“**Additional Beneficiary Fee**” means the fee, if any, imposed by MEFA in connection with the Owner’s designation of a Secondary Qualifying Beneficiary of a Tuition Certificate, as established by MEFA from time to time.

“**Agent**” or “**Point of Sale Agent**” means the contractor selected from time to time by MEFA to accept Purchase Request Forms and Deposits, and if no such contractor is selected, shall mean MEFA.

“**Allocable Educational Services**” means a percentage of Educational Services in the Qualifying Year in which a Tuition Certificate is used at a Participating Institution that equals the Educational Services Percentage.

“**Applicable Issuance Period**” means the period extending from the day after the end of an Enrollment Period to and including August 1 of the calendar year in which the Enrollment Period ends, or such later date to which such period may be extended by the Authority.

“**Assigned Payments**” means the payments received by the Owner on a Tuition Certificate that the Owner has assigned to MEFA under Section VI of the Enrollment Agreement, consisting of the Current Coupon on each Tuition Certificate and a portion of any payment received by an Owner on a Tuition Certificate equal to the Stabilization Fee, provided that the assignment of the amounts equal to the Stabilization Fee shall be effective only if, and to the extent, the Stabilization Fee becomes payable.

“**Change of Beneficiary Fee**” means the fee, if any, imposed by MEFA in connection with a change in the name of the Qualifying Beneficiary of a Tuition Certificate.

“**Commonwealth College Opportunity Bond**” or “**Bond**” means a general obligation bond issued by The Commonwealth of Massachusetts and deposited with the Program Custodian and bearing interest as described in Section 2.05 of the Enrollment Agreement.

“**CPI**” means the Consumer Price Index – All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics during the calendar month before the calendar month of the Issue Date of a Related Program Bond and during the calendar month before each applicable compounding date on the Related Program Bond, or, if such index is eliminated, any successor to such index.

“**CPI Flat**” means a variable interest rate equal to the annual positive percentage change, if any, in CPI since the preceding August 1 (or, in the case of the August 1 immediately preceding the Issue Date, a dollar amount equal to the annualized positive percentage change, if any, in CPI since the Date), compounded on each August 1.

or any other funds of MEFA in connection with any obligation arising out of this Enrollment Agreement, the Contract, the Program or any related transaction. No recourse shall be had for the payment of any such obligation against any member, officer or employee of MEFA. The Commonwealth has no responsibility under the Program other than to pay the principal of and interest on the Bonds when due in accordance with the terms of the Bonds.

“**Current Coupon**” – see Section 2.05 of the Enrollment Agreement.

“**Deposit**” means the aggregate amount, equal to the proposed Investment Amount of all Tuition Certificates to be purchased pursuant to the Contract, paid by the Purchaser and transferred to MEFA pursuant to Section 2.02 of the Enrollment Agreement.

“**Designated Portion**” means that percentage of Allocable Educational Services that an Owner designates for use on a particular Tuition Payment Date at a particular Participating Institution for a particular Qualifying Beneficiary.

“**Early Tender Date**” means August 1 of either of the two years immediately preceding the Maturity Date of a Related Program Bond, provided the Owner sells the Tuition Certificate on such Early Tender Date as described in Section 3.02 of the Enrollment Agreement.

“**Early Tender Price**” means the Accreted Amount of the Tuition Certificate at the Standard Accrual Rate on the Early Tender Date.

“**Early Withdrawal Fee**” means the fee, if any, charged by MEFA in connection with any financial hardship withdrawal pursuant to Section 4.03(b) of the Enrollment Agreement, as established by MEFA from time to time.

“**Educational Services**” means the services and rights the Participating Institution provides to a Student in return for the Student’s payment of Tuition to the Institution; Educational Services does not include fees for room and board, travel, health care, books, supplies or equipment.

“**Educational Services Percentage**” means the percentage of Educational Services that the Investment Amount of a Tuition Certificate would purchase in the academic year beginning during the calendar year in which the Tuition Certificate was issued, as set forth on the applicable Tuition Schedule. The Educational Services Percentage listed on a Tuition Certificate may be greater than 100% for one or more Participating Institutions.

“**Effective Year**” means any year designated by a Participating Institution in its Participation Agreement with MEFA as a year with respect to which Tuition Certificates issued in such year will be honored by such Participating Institution under the terms of the Participation Agreement and the Enrollment Agreement.

“**Enrollment Period**” means for each year the period designated by MEFA during which new Contracts will be accepted by MEFA.

“**Excess Proceeds**” means the excess, if any, of (i) the proceeds of a Tuition Certificate deposited to an Owner Account and proceeds available under a Contingent Coupon over (ii) the proceeds of a Tuition Certificate, if any, paid to a Participating Institution (including proceeds of a Contingent Coupon) for Program Uses.

“**Family Transfer Fee**” means the fee, if any, imposed by MEFA in connection with any change of Owner of a Tuition Certificate pursuant to Section 4.05.

“**In-state Tuition**” means, in the case of any public Participating Institution, Tuition payable by a Student who is a resident of the Commonwealth.

“**Investment Amount**” means the initial amount invested by the Purchaser in a Tuition Certificate, as represented by the initial principal amount of the Tuition Certificate (or, in the case of a

Tuition Certificate acquired after the initial issuance of such Tuition Certificate pursuant to a transfer described in Section 4.03(b) of the Enrollment Agreement, the Accreted Amount at the Standard Accrual Rate as of the date of acquisition).

“**Issue Date**” means the date as of which a Related Program Bond begins to accrue interest.

“**Mandatory Fees**” means non-waivable fees required by a Participating Institution for the enrollment or attendance of a full-time Student for the full applicable academic year, exclusive, unless otherwise indicated by the Participating Institution, of specialized fees charged only in certain years (e.g., orientation fees and graduation fees), and incremental fees for specialized programs, majors or courses of study (e.g., lab fees, computer fees), as reported by the Participating Institution to MEFA.

“**Maturity Date**” means the August 1 of the year in which a Related Program Bond matures.

“**Maturity Proceeds**” means (i) the Accreted Amount of a Tuition Certificate at the Program Accrual Rate on the Maturity Date multiplied by (ii) the Designated Portion.

“**Maturity Year**” means the academic year of a Participating Institution beginning in the calendar year of the Maturity Date.

“**Non-Program Portion**” means for each Tuition Certificate, a percentage of the Investment Amount equal to the percentage of the amount deposited from a Tuition Certificate to the Owner Account on the Maturity Date or, if applicable, Early Tender Date that is not applied by the Owner for Program Uses, as determined by MEFA.

“**Nonresident Tuition**” means, in the case of any public Participating Institution, Tuition payable by a Student who is not a resident of the Commonwealth.

“**Owner**” means, initially, the Purchaser and, upon a transfer of a Tuition Certificate and/or the rights of the Owner under this Enrollment Agreement, means such transferee. “Owner” includes any custodian for a minor named in compliance with the Uniform Gifts to Minors Act and Uniform Transfers to Minor Acts or similar laws as applicable.

“**Owner Account**” means an account established in an Owner’s name (or, if an Owner has transferred the Tuition Certificate as described in Section 4.03(b) of the Enrollment Agreement, the name of the transferee), including by book entry in an account established by MEFA, at the Program Account Institution for the deposit of Tuition Certificate Proceeds.

“**Owner Accreted Amount**” means, with respect to each Tuition Certificate, the Investment Amount of such Tuition Certificate, increased on each August 1 to and including the Maturity Date or, if applicable, the Early Tender Date or Pre-Transfer Accretion Date, by adding to the Owner Accreted Amount in effect on the prior August 1 (or, in the case of the August 1 immediately following the Issue Date of such Tuition Certificate, in effect on such Issue Date) a dollar amount equal to the positive percentage change, if any, in CPI since the preceding August 1 (or, in the case of the August 1 immediately preceding the Issue Date, a dollar amount equal to the annualized positive percentage change, if any, in CPI since the Issue Date).

“**Owner Balance**” means, with respect to each Tuition Certificate, the Non-Program Portion increased on each August 1 to and including the Maturity Date or, if applicable, the Early Tender Date or Pre-Transfer Accretion Date, by adding to the Owner Balance in effect on the prior August 1 (or, in the case of the August 1 immediately following the Issue Date of such Tuition Certificate, in effect on such Issue Date) a dollar amount equal to the positive percentage change, if any, in CPI since the preceding August 1 (or, in the case of the

August 1 immediately preceding the Issue Date, a dollar amount equal to the annualized positive percentage change, if any, in CPI since the Issue Date).

“**Participating Institution**” means an institution of higher education located in The Commonwealth of Massachusetts, authorized under federal or state law to provide educational programs and accredited by a nationally recognized accreditation agency, which has executed a Participation Agreement with MEFA pursuant to which such institution has committed (i) to provide Allocable Educational Services for a Qualifying Beneficiary who is a Student at such Institution in a Qualifying Year upon receipt of Tuition Certificate Proceeds of Tuition Certificates issued in Effective Years, and (ii) to provide the Post Maturity Educational Services Percentage for a Qualifying Beneficiary who is a Student in a Post Maturity Year upon receipt of Post Maturity Proceeds of Tuition Certificates issued in Effective Years, in either case subject to the conditions described in the Enrollment Agreement and Participation Agreement.

“**Participation Agreement**” means the agreement between MEFA and a Participating Institution governing the Participating Institution’s participation in the Program.

“**Post Maturity Educational Services Percentage**” means a percentage of Educational Services in the Post Maturity Year a Tuition Certificate is used at a Participating Institution equal to the ratio of (i) the Post Maturity Educational Services Rate to (ii) the Tuition in effect in such year, multiplied by 100. The Post Maturity Educational Services Percentage is referred to as the “Applicable Educational Services Percentage” in the Participation Agreement.

“**Post Maturity Educational Services Rate**” means a dollar amount equal to (i) the Allocable Educational Services (assuming payment to the Participating Institution of the Tuition Certificate Proceeds) multiplied by Tuition in effect on the Maturity Date of the Related Program Bond multiplied by (ii) a fraction consisting of (A) the proceeds of a Tuition Certificate paid to the Participating Institution over (B) the Tuition Certificate Proceeds which the Participating Institution would have received in the Maturity Year as a condition to providing the Allocable Educational Services. The Post Maturity Educational Services Rate is referred to as the “Educational Services Rate” in the Participation Agreement.

“**Post Maturity Fee**” means the annual fee, if any, imposed under Section 5.01 for the maintenance of the Owner Account.

“**Post Maturity Proceeds**” means proceeds of a Tuition Certificate remaining on deposit in an Owner Account after a Tuition Payment Date in the Maturity Year, and, if applicable, Contingent Coupon proceeds payable after a Tuition Payment Date in the Maturity Year.

“**Post Maturity Year**” means each of the academic years, other than a Qualifying Year, that begins within six years of the Maturity Year.

“**Pre-Maturity Proceeds**” means (i) the Accreted Amount of a Tuition Certificate at the Program Accrual Rate on the applicable Early Tender Date multiplied by (ii) the Designated Portion.

“**Pre-Transfer Accretion Date**” means the August 1 immediately preceding the Transfer Date or, if the Transfer Date is August 1, the Transfer Date.

“**Program Account Institution**” means the financial institution or institutions (including without limitation an investment company, mutual fund or money market fund) selected from time to time by MEFA to establish Owner Accounts.

“**Program Accrual Rate**” means interest at an annual rate equal to the percentage change in CPI since the previous August 1 or, in the case of the August 1 immediately following the Issue Date, the annualized percentage change in CPI since the Issue Date, in each case plus 200 basis points. If the percentage change in CPI during any compounding period is negative, such negative percentage will

be deducted from the 200 basis points, but if the resulting percentage is negative or zero, no adjustment will be made to the prior compounded value.

“Program Custodian” means the financial institution selected from time to time by MEFA to take custody of Commonwealth College Opportunity Bonds and issue Tuition Certificates.

“Program Portion” means for each Tuition Certificate, the Investment Amount less the Non-Program Portion.

“Program Uses” means the application of payments received on a Tuition Certificate issued in an Effective Year to purchase Educational Services for a Qualifying Beneficiary at a Participating Institution in a Qualifying Year or Post Maturity Year.

“Purchase Request Form” means a request for acceptance into the Program, made on a form approved by MEFA.

“Purchaser” means the person or entity providing the Investment Amount towards the purchase of Tuition Certificates thereunder, who will be the initial Owner of each such Tuition Certificate.

“Qualifying Beneficiary” means for each Tuition Certificate, the Owner or another person designated as a beneficiary by the Owner as permitted under the Rules and who has been certified, to the satisfaction of MEFA, as the Owner’s sibling or as a living lineal descendant of the Owner or the Owner’s sibling. A lineal descendant includes any persons deemed lineal descendants under the Rules, such as step or adopted lineal descendants.

A Qualifying Beneficiary has no vested rights in a Tuition Certificate, and the Owner has the right to change a Qualifying Beneficiary designation at any time, provided the new Qualifying Beneficiary is a Qualifying Beneficiary Relative of the preceding Qualifying Beneficiary.

“Qualifying Beneficiary Relative” means a Qualifying Beneficiary who is, with respect to the preceding Qualifying Beneficiary, (i) an ancestor, (ii) a lineal descendant or (iii) a lineal descendant of the parent of the preceding Qualifying Beneficiary.

“Qualifying Year” means the Maturity Year and the two preceding academic years.

“Refund Rate” means the rate of interest, as determined by MEFA, equal to the weighted average rate of return earned by MEFA on all Deposits received by MEFA during the period preceding a refund on which the Refund Rate is paid.

“Related Program Bond” means the Commonwealth College Opportunity Bond to which a Tuition Certificate relates.

“Secondary Qualifying Beneficiary” means, for each Tuition Certificate, the Owner or another person who is not the primary Qualifying Beneficiary and who is (i) a Qualifying Beneficiary Relative of the primary Qualifying Beneficiary and (ii) designated by the Owner at the time the proceeds of a Tuition Certificate are applied as a Qualifying Beneficiary as permitted by the Rules.

“Stabilization Fee” means an amount equal to (i) the Accreted Amount of a Tuition Certificate at the Standard Accrual Rate on the Maturity Date or, if applicable, the Early Tender Date or Pre-Transfer Accretion Date, minus (ii) any Tuition Certificate Proceeds or Post Maturity Proceeds of such Tuition Certificate paid to a Participating Institution for Program Uses, minus (iii) the Owner Balance.

“Stabilization Fund” means the fund of that name established on the books of MEFA.

“Standard Accrual Rate” means interest at an annual rate equal to the percentage change in CPI since the prior August 1 or, in the case of the August 1 immediately following the Issue Date, the annualized percentage change in CPI since the Issue Date, in each case plus 200 basis points. If the percentage change in CPI during

any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior compounded value.

“Student” means (i) an undergraduate student at a Participating Institution who is pursuing studies or conducting research to meet the requirement for an academic or professional degree or (ii) a full-time or part-time undergraduate student at a Participating Institution, if such institution provides an educational program that is acceptable for full-credit towards a bachelor’s or higher degree, or offers a program of training to prepare students for gainful employment in a recognized occupation.

“Successor Owner” means an individual designated by the Owner in accordance with Section 4.06 of the Enrollment Agreement to become the Owner in the event of the Owner’s death.

“Transfer Date” means the effective date of any transfer of a Tuition Certificate in accordance with Section 4.03(b) the Enrollment Agreement.

“Transfer Fee” means the fee, if any, imposed by MEFA in connection with any permitted change of Owner of a Tuition Certificate, other than pursuant to Section 4.05.

“Tuition” means tuition rates, whether expressed as annual, semester, trimester, quarter or credit-hour charges or otherwise, required for the enrollment or attendance of a full-time Student attending a Participating Institution, plus Mandatory Fees. In the case of a public Participating Institution, In-state Tuition and Nonresident Tuition will be separately stated for purposes of each Tuition Schedule, and references to Tuition in this Enrollment Agreement mean In-state Tuition or Nonresident Tuition, as applicable at the time of attendance to the Qualifying Beneficiary for whose benefit Contract benefits are applied. A Participating Institution may also separately state Tuition for specialized programs, and such specialized program Tuition will be separately stated on each Tuition Schedule.

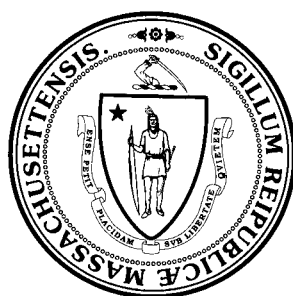
“Tuition Certificate” means a certificate, or acknowledgment of a book entry, representing a fractional ownership interest in a Commonwealth College Opportunity Bond with a specified Issue Date and Maturity Date held by the Program Custodian.

“Tuition Certificate Proceeds” means the Maturity Proceeds or Pre-Maturity Proceeds of a Tuition Certificate, as applicable. Tuition Certificate Proceeds are referred to as “Program Certificate Proceeds” in the Participation Agreement.

“Tuition Payment Date” means the earliest date established by the applicable Participating Institution for payment of Tuition by all Students.

“Tuition Schedule” means the schedule maintained by the Program Recordkeeper setting forth the Educational Services Percentage relating to the Allocable Educational Services to be obtained by a Qualifying Beneficiary at each Participating Institution in exchange for the Maturity Proceeds or Pre-Maturity Proceeds paid to such Participating Institution in a Qualifying Year. The Tuition Schedule may be amended from time to time by MEFA to reflect the participation of additional Participating Institutions and the Educational Services Percentage relating to the Allocable Educational Services to be provided by each such additional Participating Institution for a Qualifying Beneficiary in exchange for the Maturity Proceeds or Pre-Maturity Proceeds paid to such Participating Institution in a Qualifying Year.

**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT

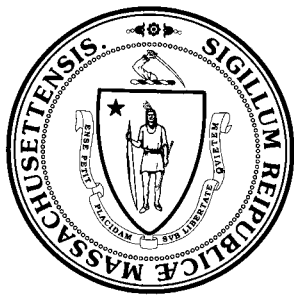
Dated June 8, 2010

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TABLE OF CONTENTS

THE GOVERNMENT	A-2	AUDITOR’S REPORT ON FISCAL 2009 CAFR ...	A-42
EXECUTIVE BRANCH	A-2	FISCAL 2010 AND FISCAL 2011	A-42
LEGISLATIVE BRANCH.....	A-3	FISCAL 2009 ENDING BALANCE	A-42
JUDICIAL BRANCH.....	A-4	FISCAL 2010.....	A-42
INDEPENDENT AUTHORITIES AND AGENCIES.....	A-4	FISCAL 2011 BUDGET PROPOSALS	A-43
LOCAL GOVERNMENT	A-4	CASH FLOW.....	A-44
INITIATIVE PETITIONS.....	A-4	LONG-TERM LIABILITIES.....	A-47
COMMONWEALTH BUDGET AND FINANCIAL		GENERAL AUTHORITY TO BORROW	A-47
MANAGEMENT CONTROLS	A-5	GENERAL OBLIGATION DEBT	A-49
OPERATING FUND STRUCTURE.....	A-5	SPECIAL OBLIGATION DEBT	A-50
OVERVIEW OF OPERATING BUDGET PROCESS ...	A-5	FEDERAL GRANT ANTICIPATION NOTES.....	A-50
CASH AND BUDGETARY CONTROLS	A-6	INTEREST RATE SWAPS	A-52
CAPITAL INVESTMENT PROCESS AND		LIQUIDITY FACILITIES	A-54
CONTROLS	A-6	DEBT SERVICE REQUIREMENTS.....	A-54
CASH MANAGEMENT PRACTICES OF STATE		GENERAL OBLIGATION CONTRACT	
TREASURER	A-6	ASSISTANCE LIABILITIES.....	A-56
FISCAL CONTROL, ACCOUNTING AND		BUDGETARY CONTRACT ASSISTANCE	
REPORTING PRACTICES OF COMPTROLLER	A-7	LIABILITIES	A-57
AUDIT PRACTICES OF STATE AUDITOR.....	A-9	CONTINGENT LIABILITIES.....	A-59
COMMONWEALTH REVENUES AND		AUTHORIZED BUT UNISSUED DEBT.....	A-61
EXPENDITURES	A-9	COMMONWEALTH CAPITAL INVESTMENT	
STATUTORY BASIS DISTRIBUTION OF		PLAN	A-61
BUDGETARY REVENUES AND EXPENDITURES ...	A-9	LEGAL MATTERS	A-65
STATE TAXES	A-12	PROGRAMS AND SERVICES	A-65
TAX REVENUE FORECASTING.....	A-16	MEDICAID AUDITS AND REGULATORY	
FISCAL 2009, FISCAL 2010 AND FISCAL 2011		REVIEWS	A-67
TAX REVENUES	A-17	TAXES	A-68
FEDERAL AND OTHER NON-TAX REVENUES ...	A-19	OTHER REVENUES	A-70
LIMITATIONS ON TAX REVENUES	A-21	ENVIRONMENT	A-72
LOCAL AID	A-22	OTHER.....	A-73
MEDICAID AND THE COMMONWEALTH CARE		MISCELLANEOUS.....	A-74
TRUST FUND.....	A-23	CONTINUING DISCLOSURE	A-75
OTHER HEALTH AND HUMAN SERVICES.....	A-26	AVAILABILITY OF OTHER FINANCIAL	
EMPLOYEE BENEFITS.....	A-28	INFORMATION	A-76
EDUCATION	A-33	EXHIBITS (Exhibits A, B and C are included by reference	
PUBLIC SAFETY	A-34	and have been filed with EMMA)	
ENERGY AND ENVIRONMENTAL AFFAIRS.....	A-34	A. Economic Information	
DEBT SERVICE.....	A-34	B. Statutory Basis Financial Report for the year ended June	
OTHER PROGRAM EXPENDITURES	A-34	30, 2009.	
STATE WORKFORCE.....	A-35	C. Comprehensive Annual Financial Report (GAAP basis)	
UNIONS AND LABOR NEGOTIATIONS	A-35	for the year ended June 30, 2009.	
SELECTED FINANCIAL DATA.....	A-37		
STABILIZATION FUND.....	A-37		
GAAP BASIS	A-39		
DISCUSSION OF FINANCIAL CONDITION.....	A-42		

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Deval L. Patrick.....Governor
Timothy P. MurrayLieutenant Governor
William F. Galvin.....Secretary of the Commonwealth
Martha Coakley.....Attorney General
Timothy P. CahillTreasurer and Receiver-General
A. Joseph DeNucci.....Auditor

LEGISLATIVE OFFICERS

Therese Murray.....President of the Senate
Robert A. DeLeo.....Speaker of the House

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

June 8, 2010

This Information Statement, together with its Exhibits (included by reference as described below), is furnished by The Commonwealth of Massachusetts (the Commonwealth). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its financial obligations. This Information Statement contains information only through its date, or as otherwise provided for herein, and should be read in its entirety.

The ability of the Commonwealth to meet its obligations will be affected by future social, environmental and economic conditions, among other things, as well as by legislative policies and the financial condition of the Commonwealth. Many of these conditions are not within the control of the Commonwealth.

Exhibit A to this Information Statement is the Statement of Economic Information as of April 1, 2010. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibits B and C, respectively, are the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 2009 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2009. The Commonwealth's independent auditor has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

Specific reference is made to said Exhibits A, B and C, copies of which have been filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) System. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on "Financial Reports/Audits."

THE GOVERNMENT

The government of the Commonwealth is divided into three branches: the Executive, the bicameral Legislature and the Judiciary.

Executive Branch

Governor. The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (State Treasurer), the Secretary of the Commonwealth (State Secretary), the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 2007.

The Executive Council, also referred to as the “Governor’s Council,” consists of eight members who are elected to two-year terms in even-numbered years. The Executive Council is responsible for the confirmation of certain gubernatorial appointments, particularly judges, and must approve all warrants (other than for debt service) prepared by the Comptroller for payment by the State Treasurer.

Also within the Executive Branch are certain independent offices, each of which performs a defined function, such as the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance.

Governor’s Cabinet. The Governor’s Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the seven Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Health and Human Services, the Executive Office of Public Safety and Security, the Executive Office of Housing and Economic Development, the Executive Office of Labor and Workforce Development, the Executive Office of Energy and Environmental Affairs and the Executive Office of Education. In addition, the Secretary of Transportation, who is the chief executive of the Massachusetts Department of Transportation (MassDOT), is a member of the Governor’s Cabinet. (MassDOT has a legal existence separate from the Commonwealth but houses several former departments of state government, including the Executive Office of Transportation, the Highway Department and the Department of Conservation and Recreation.) Finally, the Governor chairs an informal Development Cabinet to coordinate business development in the Commonwealth; it includes the Secretaries of Administration and Finance, Housing and Economic Development, Transportation, Energy and Environmental Affairs, and Labor and Workforce Development. Cabinet secretaries and executive department chiefs, as well as the Secretary of Transportation, serve at the pleasure of the Governor. Most other agencies are grouped under one of the seven Executive Offices for administrative purposes.

The Governor’s chief fiscal officer is the Secretary of Administration and Finance. The activities of the Executive Office for Administration and Finance fall within five broad categories: (i) administrative and fiscal supervision, including supervision of the implementation of the Commonwealth’s budget and monitoring of all agency expenditures during the fiscal year; (ii) enforcement of the Commonwealth’s tax laws and collection of tax revenues through the Department of Revenue for remittance to the State Treasurer; (iii) human resource management, including administration of the state personnel system, civil service system and employee benefit programs and negotiation of collective bargaining agreements with certain of the Commonwealth’s public employee unions; (iv) capital facilities management, including coordinating and overseeing the construction, management and leasing of all state facilities; and (v) administration of general services, including information technology services. In addition, the Secretary of Administration and Finance chairs the Commonwealth Health Insurance Connector Authority.

State Treasurer. The State Treasurer has four primary statutory responsibilities: (i) the collection of all state revenues (other than small amounts of funds held by certain agencies); (ii) the management of both short-term and long-term investments of Commonwealth funds (other than the state employee and teacher pension funds), including all cash receipts; (iii) the disbursement of Commonwealth moneys and oversight of reconciliation of the state’s accounts; and (iv) the issuance of almost all debt obligations of the Commonwealth, including notes, commercial paper and long-term bonds.

In addition to these responsibilities, the State Treasurer serves as Chairperson of the Massachusetts Lottery Commission, the State Board of Retirement, the Pension Reserves Investment Management Board, the Massachusetts Water Pollution Abatement Trust and the Massachusetts School Building Authority. The State Treasurer also serves as a member of numerous other state boards and commissions, including the Municipal Finance Oversight Board.

State Auditor. The State Auditor is charged with improving the efficiency of state government by auditing the administration and expenditure of public funds and reporting the findings to the public. The State Auditor reviews the activities and operations of approximately 750 state entities and contract compliance of private vendors doing business with the Commonwealth. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS.”

Attorney General. The Attorney General represents the Commonwealth in all legal proceedings in both the state and federal courts, including defending the Commonwealth in actions in which a state law or executive action is challenged. The Attorney General also brings actions to enforce environmental and consumer protection statutes, among others, and represents the Commonwealth in public utility and automobile and health insurance rate setting procedures. The Attorney General works in conjunction with the general counsel of the various state agencies and executive departments to coordinate and monitor all pending litigation.

State Comptroller. Accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the Commonwealth’s annual state single audit and manages the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor’s and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year terms. The Commonwealth’s annual reports include financial statements on the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and audited financial statements on the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report for the year ended June 30, 2009, included herein by reference as Exhibit B was reviewed, and the Comprehensive Annual Financial Report for the year ended June 30, 2009, included herein by reference as Exhibit C was audited, by KPMG LLP, as stated in its reports appearing therein. KPMG LLP has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has it performed any procedures relating to the official statement of which this Information Statement is a part. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS.”

State Secretary. The Secretary of the Commonwealth is responsible for collection and storage of public records and archives, securities regulation, state elections, administration of state lobbying laws and custody of the seal of the Commonwealth.

Legislative Branch

The Legislature (formally called the General Court) is the bicameral legislative body of the Commonwealth, consisting of a Senate of 40 members and a House of Representatives of 160 members. Members of both the Senate and the House are elected to two-year terms in even-numbered years. The Legislature meets every year. The joint rules of the House and Senate require all formal business to be concluded by the end of July in even-numbered years and by the third Wednesday in November in odd-numbered years.

The House of Representatives must originate any bill that imposes a tax. Once a tax bill is originated by the House and forwarded to the Senate for consideration, the Senate may amend it. All bills are presented to the Governor for approval or veto. The Legislature may override the Governor’s veto of any bill by a two-thirds vote of each house. The Governor also has the power to return a bill to the chamber of the Legislature in which it was originated with a recommendation that certain amendments be made; such a bill is then before the Legislature and is subject to amendment or re-enactment, at which point the Governor has no further right to return the bill a second time with a recommendation to amend but may still veto the bill.

Judicial Branch

The judicial branch of state government is composed of the Supreme Judicial Court, the Appeals Court and the Trial Court. The Supreme Judicial Court has original jurisdiction over certain cases and hears appeals from both the Appeals Court, which is an intermediate appellate court, and in some cases, directly from the Trial Court. The Supreme Judicial Court is authorized to render advisory opinions on certain questions of law to the Governor, the Legislature and the Governor's Council. Judges of the Supreme Judicial Court, the Appeals Court and the Trial Court are appointed by the Governor, with the advice and consent of the Governor's Council, to serve until the mandatory retirement age of 70 years.

Independent Authorities and Agencies

The Legislature has established a number of independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statements 14 and 39 articulate standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2009, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statements 14 and 39 (as amended), with 34 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2009 Basic Financial Statements in the CAFR, included herein by reference as Exhibit C.

Local Government

All territory in the Commonwealth is in one of the 351 incorporated cities and towns that exercise the functions of local government, which include public safety, fire protection and public construction. Cities and towns or regional school districts established by them also provide elementary and secondary education. Cities are governed by several variations of the mayor-and-council or manager-and-council form. Most towns place executive power in a board of three or five selectmen elected to one- or three-year terms and retain legislative powers in the voters themselves, who assemble in periodic open or representative town meetings. Various local and regional districts exist for schools, water and wastewater administration and certain other governmental functions.

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). See "COMMONWEALTH REVENUES AND EXPENDITURES – Local Aid."

The cities and towns of the Commonwealth are also organized into 14 counties, but county government has been abolished in seven of those counties. The county governments that remain are responsible principally for the operation of correctional facilities, courthouses and registries of deeds. Where county government has been abolished, the functions, duties and responsibilities of the government have been transferred to the Commonwealth, including all employees, assets, valid liabilities and debts.

Initiative Petitions

Under the Massachusetts constitution, legislation may be enacted in the Commonwealth pursuant to a voter initiative process. Initiative petitions which have been certified by the Attorney General as to proper form and as to which the requisite number of voter signatures has been collected are submitted to the Legislature for consideration. If the Legislature fails to enact the measure into law as submitted, the petitioner may place the initiative on the ballot for the next statewide general election by collecting additional voter signatures. If approved by a majority of the voters at the general election, the petition becomes law 30 days after the date of the election. Initiative petitions so approved by the voters do not constitute constitutional amendments and may be subsequently amended or repealed by the Legislature. Initiative petitions may not make appropriations. In recent years, ballots at statewide general elections typically have presented a variety of initiative petitions, sometimes including petitions relating to tax and fiscal policy. A number of these have been approved and become law. See particularly "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "COMMONWEALTH EXPENDITURES – Local Aid."

Constitutional amendments also may be initiated by citizens, but they follow a longer adoption process, which includes gaining at least 25% of the votes of the House of Representatives and Senate jointly assembled in constitutional convention in two successive biennial legislative sessions before being decided by the voters.

COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS

Operating Fund Structure

The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles (GAAP), as defined by the Governmental Accounting Standards Board (GASB). The General Fund and other funds that are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. Budgeted operating funds are created and repealed from time to time through the enactment of legislation, and existing funds may become inactive when no appropriations are made from them. Budgeted operating funds do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Capital Investment Process and Controls" below.

Two of the budgeted operating funds account for most of the Commonwealth's appropriated spending: the General Fund and the Commonwealth Transportation Fund (the "Transportation Fund") (formerly the Highway Fund), from which approximately 94.8% of the statutory basis budgeted operating fund outflows in fiscal 2009 were made. The remaining approximately 5.2% of statutory operating fund outflows occurred in other operating funds: the Stabilization Fund, the Workforce Training Fund; the Massachusetts Tourism Fund; the Inland Fisheries and Game Fund; and two administrative control funds, the Intragovernmental Service Fund and the Temporary Holding Fund. There were also four inactive funds which were authorized by law but had no activity: the Tax Reduction Fund, the Collective Bargaining Reserve Fund, the Dam Safety Trust Fund and the International Educational and Foreign Language Grant Fund. In fiscal 2009, the Commonwealth Stabilization Fund had both inflows and outflows. At the end of a fiscal year, undesignated balances in the budgeted operating funds, unless excluded by law, are used to calculate consolidated net surplus. Under state finance law, balances in the Stabilization Fund and the Tax Reduction Fund, both of which may receive consolidated net surplus funds, and the Inland Fisheries and Game Fund are excluded from the consolidated net surplus calculation.

Overview of Operating Budget Process

Generally, funds for the Commonwealth's programs and services must be appropriated by the Legislature. The process of preparing a budget begins with the executive branch early in the fiscal year preceding the fiscal year for which the budget will take effect. The legislative budgetary process begins in late January (or, in the case of a newly elected Governor, not later than early March) with the Governor's budget submission to the Legislature for the fiscal year commencing in the ensuing July. The Massachusetts constitution requires that the Governor recommend to the Legislature a budget which contains a statement of all proposed expenditures of the Commonwealth for the upcoming fiscal year, including those already authorized by law, and of all taxes, revenues, loans and other means by which such expenditures are to be defrayed. State finance law requires the Legislature and the Governor to approve a balanced budget for each fiscal year, and the Governor may approve no supplementary appropriation bills that would result in an unbalanced budget. However, this is a statutory requirement that may be superseded by an appropriation act.

The House Ways and Means Committee considers the Governor's budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. In recent years, the legislative budget review process has included joint hearings by the Ways and Means Committees of the Senate and the House. After Senate action, a legislative conference committee develops a joint budget recommendation for consideration by both houses of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items (line item veto). The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the general appropriations act.

In years in which the general appropriations act is not approved by the Legislature and the Governor before the beginning of the applicable fiscal year, the Legislature and the Governor generally approve a temporary budget under which funds for the Commonwealth's programs and services are appropriated based upon the level of appropriations from the prior fiscal year budget.

State finance law requires the Commonwealth to monitor revenues and expenditures during a fiscal year. For example, the Secretary of Administration and Finance is required to provide quarterly revenue estimates to the Governor and the Legislature, and the Comptroller publishes a quarterly report of planned and actual revenues. See “COMMONWEALTH REVENUES AND EXPENDITURES – Tax Revenue Forecasting.” Department heads are required to notify the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means of any anticipated decrease in estimated revenues for their departments from the federal government or other sources or if it appears that any appropriation will be insufficient to meet all expenditures required in the fiscal year by any law, rule, regulation or order not subject to the administrative control. The Secretary of Administration and Finance must notify the Governor and the House and Senate Committees on Ways and Means whenever the Secretary determines that revenues will be insufficient to meet authorized expenditures. The Secretary of Administration and Finance is then required to compute projected deficiencies and, under Section 9C of Chapter 29 of the General Laws, the Governor is required to reduce allotments, to the extent lawfully permitted to do so, or submit proposals to the Legislature to raise additional revenues or to make appropriations from the Stabilization Fund to cover such deficiencies. The Supreme Judicial Court has ruled that, under current law, the Governor’s authority to reduce allotments of appropriated funds extends only to appropriations of funds to state agencies under the Governor’s control.

Cash and Budgetary Controls

The Commonwealth has in place controls designed to ensure that sufficient cash is available to meet the Commonwealth’s obligations, that state expenditures are consistent with periodic allotments of annual appropriations and that moneys are expended consistently with statutory and public purposes. Two independently elected Executive Branch officials, the State Treasurer and the State Auditor, conduct the cash management and audit functions, respectively. The Comptroller conducts the expenditure control function. The Secretary of Administration and Finance is the Governor’s chief fiscal officer and provides overall coordination of fiscal activities.

Capital Investment Process and Controls

Capital expenditures are primarily financed with debt proceeds and federal grants. Authorization for capital investments requires approval by the Legislature, and the issuance of debt must be approved by a two-thirds vote of each house of the Legislature. Upon such approval to issue debt, the Governor submits a bill to the Legislature, as required by the state constitution, to set the terms and conditions of the borrowing for the authorized debt. The State Treasurer issues authorized debt at the request of the Governor, and the Governor, through the Secretary of Administration and Finance, controls the amount of capital expenditures through the allotment of funds pursuant to such authorizations.

Based on outstanding authorizations, the Executive Office for Administration and Finance, at the direction of the Governor and in conjunction with the cabinet and other officials, establishes a capital investment plan. The plan is an administrative guideline and subject to amendment at any time. The plan assigns authority for secretariats and agencies to spend on capital projects and is reviewed each fiscal year. The primary policy objectives of the plan are to determine and prioritize the Commonwealth’s investment needs, to determine the affordable level of debt that may be issued and the other funding sources available to address these investment needs, and to allocate these limited capital investment resources among the highest priority projects. See “COMMONWEALTH CAPITAL INVESTMENT PLAN.”

The Comptroller has established various funds to account for financial activity related to the acquisition or construction of capital assets. In addition, accounting procedures and financial controls have been instituted to limit agency capital spending to the levels approved by the Governor. All agency capital spending is tracked against the capital investment plan on both a cash and encumbrance accounting basis on the state’s accounting system, and federal reimbursements are budgeted and monitored against anticipated receipts.

Cash Management Practices of State Treasurer

The State Treasurer is responsible for ensuring that all Commonwealth financial obligations are met on a timely basis. The Massachusetts constitution requires that all payments by the Commonwealth (other than debt service) be made pursuant to a warrant approved by the Governor’s Council. The Comptroller prepares certificates which, with the advice and consent of the Governor’s Council and approval of the Governor, become the warrant to the State Treasurer. Once the warrant is approved, the State Treasurer’s office disburses the money.

The Cash Management Division of the State Treasurer's office accounts on a daily basis for cash received into over 600 separate accounts of the Department of Revenue and other Commonwealth agencies and departments. The Division relies primarily upon electronic receipt and disbursement systems.

The State Treasurer, in conjunction with the Executive Office for Administration and Finance, is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before each September 1, December 1, March 1 and June 1. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "FISCAL 2010 AND FISCAL 2011– Cash Flow." The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports. The State Treasurer's office oversees the issuance of short-term debt to meet cash flow needs, including the issuance of commercial paper. See "LONG-TERM LIABILITIES – General Obligation Debt."

Under state finance law, the State Treasurer may invest Commonwealth funds in obligations of the United States Treasury, bonds or notes of various states and municipalities, corporate commercial paper meeting specified ratings criteria, bankers acceptances, certificates of deposit, repurchase agreements secured by United States Treasury obligations, money market funds meeting specified ratings criteria, securities eligible for purchase by a money market fund operated in accordance with Rule 2a-7 of the federal Securities and Exchange Commission or investment agreements meeting specified ratings criteria. Cash that is not needed for immediate funding needs is invested in the Massachusetts Municipal Depository Trust. The State Treasurer serves as trustee of the Trust and has sole authority pertaining to rules, regulations and operations of the Trust. The Trust has two investment options: a money market fund and a short-term bond fund. General operating cash is invested in the money market fund, which is administered in accordance with Rule 2a-7 of the Securities and Exchange Commission and additional policies and investment restrictions adopted by the State Treasurer. The three objectives for the money market fund are safety, liquidity and yield. The money market fund maintains a stable net asset value of one dollar and is marked to market daily. Moneys in the Stabilization Fund, which are not used by the Commonwealth for liquidity, are invested in both the money market fund and the short-term bond fund. The short-term bond fund invests in a diversified portfolio of high-quality investment-grade fixed-income assets that seeks to obtain the highest possible level of current income consistent with preservation of capital and liquidity. The portfolio is required to maintain an average credit rating of A-. The duration of the portfolio is managed to within +/- one half year duration of the benchmark. The benchmark for the short-term bond fund is the Barclays Capital 1-to-5-year Government/Credit Index, which includes all medium and larger issues of United States government, investment-grade corporate and investment-grade international dollar-denominated bonds that have maturities between one and five years and are publicly issued.

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of accounting policies and practices and publication of official financial reports. The Comptroller maintains the Massachusetts Management Accounting and Reporting System (MMARS), the centralized state accounting system that is used by all state agencies and departments but not independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. The Commonwealth's statewide accounting system also has various modules for receivables, payables, fixed assets and other processes management.

Expenditure Controls. The Comptroller requires that the amount of all obligations under purchase orders, contracts and other commitments for the expenditures of moneys be recorded as encumbrances. Once encumbered, these amounts are not available to support additional spending commitments. As a result of these encumbrances, spending agencies can use MMARS to determine at any given time the amount of their appropriations available for future commitments.

The Comptroller is responsible for compiling expenditure requests into the certificates for approval by the Governor's Council. In preparing these certificates, which become the warrant, the Comptroller's office has systems in place to ensure that the necessary moneys for payment have been both appropriated by the Legislature and allotted by the Governor in each account and sub-account. By law, certain obligations may be placed upon the warrant even if the supporting appropriation or allotment is insufficient. These obligations include debt service, which is specifically exempted by the state constitution from the warrant requirement, and Medicaid payments, which are mandated by federal law.

Although state finance law generally does not create priorities among types of payments to be made by the Commonwealth in the event of a cash shortfall, the Comptroller has developed procedures, in consultation with the State Treasurer and the Executive Office for Administration and Finance, for prioritizing payments based upon state finance law and sound fiscal management practices. Under those procedures, debt service on the Commonwealth's bonds and notes is given the highest priority among the Commonwealth's various payment obligations.

Internal Controls. The Comptroller establishes internal control policies and procedures in accordance with state finance law. Agencies are required to adhere to such policies and procedures. All unaccounted-for variances, losses, shortages or thefts of funds or property must be reported to the State Auditor, who is authorized to investigate and recommend corrective action.

Statutory Basis of Accounting. In accordance with state law, the Commonwealth adopts its budget and maintains financial information on a statutory basis of accounting. Under the statutory basis, tax and departmental revenues are accounted for on a modified cash basis by reconciling revenue to actual cash receipts confirmed by the State Treasurer. Certain limited revenue accruals are also recognized, including receivables from federal reimbursements with respect to paid expenditures. Expenditures are measured on a modified cash basis including actual cash disbursements and encumbrances for goods or services received prior to the end of a fiscal year.

For certain programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting only to the extent of disbursements supported by current-year appropriations. Some prior year services billed after the start of a fiscal year have been paid from the new fiscal year's appropriation, in an amount determined by the specific timing of billings and the amount of prior year funds that remained after June 30 to pay the prior year's accrued billings, though this practice may vary from year to year.

GAAP Basis of Accounting. The Comptroller also prepares Commonwealth financial statements on a GAAP basis. In addition to the primary government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity, primarily as non-budgeted enterprise funds.

GAAP employs an economic resources management focus and a current financial resources management focus as two bases for accounting and reporting. Under the economic resources management focus (also called the "entity-wide perspective"), revenues and expenses (different from expenditures) are presented similarly to private-sector entities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets, including infrastructure assets net of depreciation, and the long-term portion of all liabilities are reported on the statement of net assets.

Under the current financial resources management focus of GAAP (also called the "fund perspective"), the primary emphasis is to demonstrate inter-period equity. Revenues are reported in the period in which they become both measurable and available. Revenues are considered available when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements and reimbursements for the use of materials and services. Tax accruals, which include the estimated amounts due to the Commonwealth on previous filings, over- and under-withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues.

Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and workers' compensation claims incurred but not reported and contract assistance to state authorities. See Exhibit C - Comprehensive Annual Financial Report for the year ended June 30, 2009; Notes to the Basic Financial Statements.

Audit Practices of State Auditor

The State Auditor is mandated under state law to conduct an audit at least once every two years of all activities of the Commonwealth. The audit encompasses 750 entities, including the court system and the independent authorities, and includes an overall evaluation of management operations. The State Auditor also has the authority to audit federally aided programs and vendors under contract with the Commonwealth, as well as to conduct special audit projects. The State Auditor conducts both financial compliance and performance audits in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. In addition, and in conjunction with an independent public accounting firm, the State Auditor performs a significant portion of the audit work relating to the state single audit.

Within the State Auditor's office is the Division of Local Mandates, which evaluates all proposed and actual legislation to determine the financial impact on the Commonwealth's cities and towns. In accordance with state law, the Commonwealth is required to reimburse cities and towns for any costs incurred through mandated programs established after the passage of Proposition 2½, the statewide tax limitation enacted by the voters in 1980, unless expressly exempted from those provisions, and the State Auditor's financial analysis is used to establish the amount of reimbursement due to the Commonwealth's cities and towns. See "COMMONWEALTH REVENUES AND EXPENDITURES – Local Aid; *Property Tax Limits*."

Also within the State Auditor's office is the Bureau of Special Investigations, which is charged with the responsibility of investigating fraud within public assistance programs.

COMMONWEALTH REVENUES AND EXPENDITURES

This section contains a description of the major categories of Commonwealth revenues and expenditures, beginning with a table presenting combined revenues and expenditures in the budgeted operating funds, followed by descriptions of categories of revenues and expenditures.

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds, which are deposited in the General Fund, the Transportation Fund (formerly the Highway Fund) and other operating budgeted funds. For purposes of this Information Statement, these funds will be referred to as budgeted operating funds, and revenues deposited in such funds will be referred to as budgeted operating revenues. In fiscal 2009, on a statutory basis, approximately 57.5% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 28.2% of such revenues, with the remaining 14.3% provided from departmental revenues and transfers from non-budgeted funds. The measurement of revenues for the budgeted operating funds on a statutory basis differs from governmental revenues on a GAAP basis. See "SELECTED FINANCIAL DATA – GAAP Basis; *Revenues – GAAP Basis*." The Commonwealth's executive and legislative branches establish the Commonwealth's budget using the statutory basis of accounting.

Statutory Basis Distribution of Budgetary Revenues and Expenditures

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 2005 through 2009. Projections for fiscal 2010 have been prepared by the Executive Office for Administration and Finance. Except where otherwise indicated, they are based on the office's most recent estimate of tax revenue (as officially issued) and non-tax revenue, on enacted appropriations adjusted for projected reversions and on supplemental appropriations filed by the Governor that remain before the Legislature. The financial information presented includes all budgeted operating funds of the Commonwealth. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS — Operating Fund Structure" for additional detail.

The following table sets forth the Commonwealth's revenues and expenditures for fiscal 2005 through fiscal 2009 and projected revenues and expenditures for fiscal 2010.

Budgeted Operating Funds – Statutory Basis (in millions)(1)

	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Projected Fiscal 2010</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 664.6	\$ 355.6	\$ 947.2	\$ 351.3	\$ 171.5	\$ 68.8
Bay State Competitiveness						
Investment Fund	-	-	-	100.0	-	-
Transitional Escrow Fund	-	304.8	-	-	-	-
Stabilization Fund	1,137.3	1,728.4	2,154.7	2,335.0	2,119.2	841.3
Undesignated	<u>90.9</u>	<u>98.4</u>	<u>106.2</u>	<u>114.7</u>	<u>115.1</u>	<u>106.4</u>
Total	<u>1,892.8</u>	<u>2,487.2</u>	<u>3,208.1</u>	<u>2,901.0</u>	<u>2,405.8</u>	<u>1,016.5</u>
<u>Revenues and Other Sources</u>						
Alcoholic Beverages	68.6	68.9	71.0	71.2	71.9	71.4
Banks	198.9	349.9	340.9	547.8	242.6	216.8
Cigarettes	423.6	435.3	438.1	436.9	456.8	457.5
Corporations	1,062.7	1,390.7	1,587.6	1,512.2	1,548.6	1,503.5
Deeds	220.3	210.1	194.1	153.9	105.5	102.9
Income	9,690.3	10,483.4	11,399.6	12,483.8	10,583.7	10,269.7
Inheritance and Estate	255.1	196.3	249.6	254.0	259.7	207.2
Insurance	423.4	448.5	418.6	417.7	356.7	331.2
Motor Fuel	685.5	671.8	676.1	672.2	654.0	657.8
Public Utilities	71.1	118.5	178.3	120.2	-1.7	27.9
Room Occupancy	97.8	105.8	111.1	119.2	109.5	99.3
Sales:						
Regular	2,746.6	2,864.7	2,927.7	2,952.2	2,799.7	3,226.4
Meals	555.6	584.1	608.7	632.9	629.6	742.3
Motor Vehicles	<u>584.2</u>	<u>555.5</u>	<u>531.1</u>	<u>501.6</u>	<u>439.3</u>	<u>532.0</u>
Sub-Total–Sales	3,886.4	4,004.3	4,067.5	4,086.7	3,868.6	4,500.7
Miscellaneous	<u>3.9</u>	<u>4.0</u>	<u>3.8</u>	<u>3.1</u>	<u>3.3</u>	<u>14.2</u>
Total Tax Revenues	<u>17,087.9</u>	<u>18,487.4</u>	<u>19,736.3</u>	<u>20,879.2</u>	<u>18,259.5</u>	<u>18,460.0</u>
MBTA Transfer	(704.8)	(712.6)	(734.0)	(756.0)	(767.1)	(767.1)
MSBA Transfer	<u>(395.7)</u>	<u>(488.7)</u>	<u>(557.4)</u>	<u>(634.7)</u>	<u>(702.3)</u>	<u>(590.9)</u>
Total Budgeted Operating Tax Revenues	<u>15,987.4</u>	<u>17,286.2</u>	<u>18,444.9</u>	<u>19,488.5</u>	<u>16,790.0</u>	<u>17,102.0</u>
Federal Reimbursements	4,697.0	5,210.1	6,167.6	6,429.5	8,250.9	8,587.8
Departmental and Other Revenues	1,948.9	2,094.3	2,218.4	2,355.9	2,326.2	2,889.4
Inter-fund Transfers from Non-budgeted Funds and other sources (2)	<u>1,740.2</u>	<u>1,714.9</u>	<u>1,785.0</u>	<u>2,039.3</u>	<u>1,850.3</u>	<u>1,971.8</u>
Budgeted Revenues and Other Sources	24,373.4	26,305.5	28,615.9	30,313.2	29,217.4	30,551.0
Inter-fund Transfers	<u>2,231.3</u>	<u>1,358.1</u>	<u>552.9</u>	<u>2,226.3</u>	<u>1,963.8</u>	<u>876.7</u>
Total Budgeted Revenues and Other Sources	<u>\$26,604.7</u>	<u>\$27,663.6</u>	<u>\$29,168.8</u>	<u>\$32,539.5</u>	<u>\$31,181.2</u>	<u>\$31,427.7</u>

	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Projected Fiscal 2010</u>
Expenditures and Uses						
Direct Local Aid	\$4,224.1	\$4,430.0	\$4,805.2	\$5,040.5	\$4,723.6	\$4,837.4
Medicaid (4)	5,977.2	6,852.5	7,550.4	8,246.3	8,679.2	9,291.0
Other Health and Human Services	4,226.0	4,433.6	4,625.3	4,796.5	4,828.3	4,658.8
Group Insurance	846.4	963.7	1,022.3	852.5	973.1	1,062.9
Department of Elementary and Secondary Education	476.7	408.6	459.0	485.8	495.9	431.0
Higher Education	915.0	987.8	1,115.7	1,084.4	1,035.5	843.0
Department of Early Education and Care	348.8	387.1	507.1	549.9	560.3	515.2
Public Safety	1,206.5	1,288.0	1,399.2	1,544.4	1,514.3	1,493.9
Energy and Environmental Affairs	181.1	202.0	238.5	227.1	215.9	194.5
Debt Service	1,738.8	1,826.7	2,234.4	1,990.1	2,011.7	2,050.9
Budgeted Pension Transfers	1,216.9	1,274.7	1,335.2	1,398.6	1,314.4	1,376.6
Other Program Expenditures	<u>1,927.2</u>	<u>2,138.7</u>	<u>2,364.9</u>	<u>2,414.1</u>	<u>2,350.9</u>	<u>2,035.0</u>
Total - Programs and Services before transfers to Non-budgeted funds	23,284.7	25,193.4	27,657.2	28,630.2	28,703.1	28,790.2
Inter-fund Transfers to Non- budgeted Funds						
Commonwealth Care Trust Fund	-	-	722.1	1,045.9	987.6	631.7
State Retiree Benefit Trust Fund	-	-	-	354.7	352.0	372.0
Medical Assistance Trust Fund	-	70.0	364.0	376.7	374.0	559.5
Massachusetts Transportation Trust Fund	-	-	-	-	-	132.6
Other	<u>494.4</u>	<u>321.2</u>	<u>179.6</u>	<u>400.9</u>	<u>189.9</u>	<u>330.0</u>
Total Inter-Fund Transfers to Non-Budgeted Funds	<u>494.4</u>	<u>391.2</u>	<u>1,265.7</u>	<u>2,178.2</u>	<u>1,903.5</u>	<u>2,025.8</u>
Budgeted Expenditures and Other Uses						
	<u>23,779.1</u>	<u>25,584.6</u>	<u>28,922.9</u>	<u>30,808.4</u>	<u>30,606.6</u>	<u>30,816.0</u>
Inter-fund Transfers						
	<u>2,231.2</u>	<u>1,358.1</u>	<u>553.0</u>	<u>2,226.3</u>	<u>1,963.8</u>	<u>876.7</u>
Total Budgeted Expenditures and Other Uses	<u>26,010.3</u>	<u>26,942.7</u>	<u>29,475.9</u>	<u>33,034.7</u>	<u>32,570.4</u>	<u>31,692.7</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses						
	<u>594.4</u>	<u>720.9</u>	<u>(307.1)</u>	<u>(495.2)</u>	<u>(1,389.2)</u>	<u>(265.0)</u>
Ending Fund Balances						
Reserved or Designated (3)	355.6	947.2	351.3	171.5	68.8	14.5
Bay State Competitiveness Investment Fund	-	-	100.0	-	-	-
Transitional Escrow Fund	304.8	-	-	-	-	-
Stabilization Fund	1,728.4	2,154.7	2,335.0	2,119.2	841.3	656.6
Undesignated	<u>98.4</u>	<u>106.2</u>	<u>114.7</u>	<u>115.1</u>	<u>106.4</u>	<u>108.4</u>
Total	<u>\$2,487.2</u>	<u>\$3,208.1</u>	<u>\$2,901.0</u>	<u>\$2,405.8</u>	<u>\$1,016.6</u>	<u>\$779.5</u>

SOURCES: Fiscal 2005-2009, Office of the Comptroller; fiscal 2010, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds to allow their expenditure, abandoned property proceeds as well as other inter-fund transfers.

(3) Consists largely of appropriations from previous years, authorized to be expended in current years.

(4) Excludes off-budget Medicaid spending in fiscal 2005, 2006 and 2007 estimated at \$292 million, \$292 million and \$290 million, respectively. Fiscal 2005 through 2009 include program administration.

State Taxes

The major components of state taxes are the income tax, which is projected to account for approximately 55.6% of total tax revenues in fiscal 2010, the sales and use tax, which is projected to account for approximately 24.4%, and the corporations and other business and excise taxes (including taxes on insurance companies, financial institutions and public utility corporations), which are projected to account for approximately 11.3%. Other tax and excise sources are projected to account for the remaining 8.7% of total fiscal 2010 tax revenues.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.3% has been applied to most types of income since January 1, 2002. The tax rate on gains from the sale of capital assets held for one year or less and from the sale of collectibles is 12%, and the tax rate on gains from the sale of capital assets owned more than one year is 5.3%. Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

Under current law, the state personal income tax rate is scheduled to be gradually reduced to 5.0%, contingent upon “baseline” state tax revenue growth (*i.e.*, revenue growth after factoring out the impact of tax law and administrative processing changes) growing by 2.5% more than the rate of inflation for state and government purchases. In the tax year following that in which the personal income tax rate is reduced to 5.0%, the charitable deduction, which was in effect for tax year 2000 but subsequently suspended, would be restored. In fiscal 2009, tax revenue growth was not sufficient to trigger a tax rate reduction for tax year 2010; fiscal 2010 baseline revenues are projected to be less than fiscal 2009 revenues, so no tax rate reduction is expected to be triggered for tax year 2011.

Sales and Use Tax. Effective August 1, 2009, the sales tax rate imposed on retail sales of certain tangible property (including retail sales of meals) transacted in the Commonwealth and a corresponding use tax rate on the storage, use or other consumption of like tangible properties brought into the Commonwealth was raised from 5% to 6.25%. Food, clothing, prescribed medicine, materials and produce used in food production, machinery, materials, tools and fuel used in certain industries and property subject to other excises (except for cigarettes and, as of August 1, 2009, alcoholic beverages) are exempt from sales taxation. The sales and use tax is also applied to sales of electricity, gas and steam for certain nonresidential use and to nonresidential and a portion of residential use of telecommunications services.

In August, 2009, when the sales tax rate increase was enacted, it was projected to produce an additional \$759 million in fiscal 2010 and \$900 million annually thereafter. Given the weak economy and the decline in the fiscal 2010 baseline sales tax revenue forecast, the Department of Revenue subsequently estimated that the sales tax increase would result in additional fiscal 2010 revenues of approximately \$705 million and fiscal 2011 revenues of \$850 million to \$900 million. Also effective August 1, 2009 was the elimination of the sales tax exemption on alcohol sales, which was expected to generate \$78.8 million in fiscal 2010 and approximately \$95 million annually thereafter. Based on revenue collections for the first nine months after the alcoholic beverages sales tax exemption was eliminated, the Department of Revenue currently estimates that fiscal 2010 collections from eliminating the alcoholic beverages exemption will be between \$90 million and \$100 million, and fiscal 2011 collections will be between \$100 million and \$120 million.

Sales tax receipts from establishments that first opened on or after July 1, 1997 and that are located near the site of the Boston Convention and Exhibition Center, sales tax receipts from retail vendors in hotels in Boston and Cambridge that first opened on or after July 1, 1997 and sales tax receipts from retail vendors located in the Springfield Civic and Convention Center or in hotels near the Springfield Civic and Convention Center that first opened on or after July 1, 2000 are required to be credited to the Convention Center Fund. As of enactment of the fiscal 2004 general appropriations act, this fund is no longer included in the calculation of revenues for budgeted operating funds. See “LONG-TERM LIABILITIES—Special Obligation Debt; *Convention Center Fund*.”

A portion of the Commonwealth’s receipts from the sales tax (other than the tax on meals) is dedicated through trust funds to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The amount dedicated to the MBTA is the amount raised by a 1% sales tax (not including meals), with an inflation-adjusted floor. A comparable amount, though without the floor, is dedicated to the MSBA beginning in fiscal 2010, with lesser amounts dedicated to the MSBA from fiscal 2005 through fiscal 2009.

Beginning in fiscal 2011, a portion of the Commonwealth's receipts from the sales tax (other than taxes required to be credited to the Convention Center Fund) is dedicated to the Massachusetts Transportation Trust Fund. The amount dedicated is the amount raised by a portion of the sales tax equal to a 0.385% sales tax, with a floor of \$275 million per fiscal year. Included in this amount is \$100 million of general obligation contract assistance payments from the Commonwealth to the Massachusetts Department of Transportation. See "LONG TERM LIABILITIES – General Obligation Contract Assistance Liabilities" herein. On June 29, 2009, the Governor filed legislation providing that such sales tax receipts be dedicated to the Commonwealth Transportation Fund rather than directly to the Massachusetts Transportation Trust Fund. The fiscal 2010 budget directs the Comptroller to transfer \$275 million from the General Fund to the Commonwealth Transportation Fund.

On September 2, 2009, the Attorney General certified an initiative petition to remove the sales tax on alcoholic beverages and alcohol, where the sale of such beverages and alcohol or their importation into the state is already subject to a separate excise tax under state law. The Attorney General also certified a petition to reduce the sales and use tax rates from their current level of 6.25% to 3%. Each petition would take effect as of January 1, 2011. The petition to reduce the sales and use tax rate provides that if the reduced rate would not produce enough revenues to satisfy any lawful pledge of sales and use tax revenues in connection with any bond, note or other contractual obligation, then the rate would instead be reduced to the lowest level allowed by law. Proponents of each certified petition collected the signatures of 66,593 registered voters by December 2, 2009 and such petitions have been filed with the Legislature. Given that the Legislature failed to enact the initiative petitions by May 5, 2010, their proponents must collect another 11,099 signatures from registered voters by early July, 2010, to place the initiatives on the November, 2010 ballot. See "THE GOVERNMENT - Initiative Petitions" above.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks and other financial institutions, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 8.75% (as of January 1, 2010), subject to further scheduled reductions. The minimum tax is \$456. See discussion below under "Corporate Tax Reform" for a discussion of changes to the corporate tax structure and the business corporations' tax rates.

Corporate Tax Reform. On July 3, 2008, the Governor approved legislation that changed the corporate tax structure in Massachusetts from a "separate company" reporting state to a "combined reporting" state, effective January 1, 2009. Under a combined reporting structure, commonly owned business corporations (together with financial institutions, public utilities and certain other entities) engaged in a "unitary" business, whether or not they have nexus in Massachusetts, determine their income as one combined business in the aggregate. The combined income of the group is then apportioned to Massachusetts in accordance with the existing apportionment rules and taxed to those members of the group that have nexus in Massachusetts. Transactions between member companies are generally disregarded.

The legislation also repealed the differences between federal and Massachusetts business entity classification rules for tax purposes so that companies will be classified as the same type of legal entity for federal and Massachusetts tax purposes. The new law retained the existing structure for different types of corporations – business corporations, manufacturers, financial institutions, utilities and S corporations, with different tax rates and apportionment rules.

Together with these structural changes, the legislation reduced the then current 9.5% business corporations' tax rate to 8.75% as of January 1, 2010, 8.25% as of January 1, 2011 and 8.00% as of January 1, 2012 and thereafter.

Massachusetts tax law imposes an entity level tax on S corporations with more than \$6 million in annual receipts. The corporate tax reform legislation also reduced the tax rate for S corporations with more than \$9 million in annual receipts so that the regular, non-S corporation rate (for a business corporation or financial institution, as applicable) for the year minus the personal income tax rate for the year equals the rate for such S corporations. The tax rate for S corporations with between \$6 million and \$9 million in annual receipts will equal two-thirds of the rate applicable to the larger S corporations.

The Department of Revenue estimates that, prior to the so-called FAS 109 deduction (described in the following paragraph), the structural corporate tax law changes combined with the gradual reductions in the business corporations tax rate, the large S corporations tax rates and the financial institutions tax rate (see “*Financial Institutions Tax*” below) increased revenues by approximately \$255 million in fiscal 2009 (reflecting less than a full year’s impact of the changes) and will increase revenues by \$345.2 million in fiscal 2010, \$239.9 million in fiscal 2011, \$169.1 million in fiscal 2012 and \$145 million in fiscal 2013 and thereafter.

FAS 109 Deduction. The corporate tax reform described above included a new tax deduction designed to limit the impact of combined reporting in the Commonwealth on certain publicly traded corporations’ financial statements. The deduction is generally referred to as the “FAS 109” deduction, in reference to the Statement of Financial Accounting Standards (FAS) No. 109, Accounting for Income Taxes. The Department of Revenue issued a report on “FAS 109” deductions on September 23, 2009, based on notices filed by the companies intending to claim FAS 109 deductions. The Department of Revenue used the aggregate amount of FAS 109 deductions intending to be claimed to calculate the aggregate potential tax benefit to such companies, and corresponding tax revenue reduction for the Commonwealth.

The Department of Revenue report indicated that the companies filing such notices stated that their FAS 109 deductions would total approximately \$178.1 billion, which would result in corporate tax savings of \$535 million at the applicable tax rates in the years in which the deductions will be claimed. Corporations are required to claim deductions over a seven-year period starting in tax year 2012. These deductions are expected to result in corporate tax savings (and corresponding Commonwealth corporate tax revenue reductions) of \$76 million to \$79 million annually for tax years 2012 through 2018, inclusive.

In general, corporations apportion their income to Massachusetts based on the proportion of payroll, property and sales within the Commonwealth, with sales being double-weighted. However, beginning January 1, 1996, legislation was phased in over five years establishing a “single sales factor” apportionment formula for the business corporations tax for manufacturing companies. The formula calculates a firm’s taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. Beginning January 1, 1997, legislation was phased in which sourced income of mutual fund service corporations to the states of domicile of the shareholders of the mutual funds that receive services instead of sourcing the sales to the state where the mutual fund provider bore the cost of performing services.

Financial Institutions Tax. Financial institutions (which include commercial and savings banks) are subject to an excise tax. The corporate tax reform legislation discussed above also provides for a reduction in the financial institutions tax rate from 10.5% to 10% as of January 1, 2010, 9.5% as of January 1, 2011 and 9% as of January 1, 2012 and thereafter.

Insurance Taxes. Life insurance companies are subject to a 2% tax on gross premiums. Domestic companies also pay a 14% tax on net investment income. Property and casualty insurance companies are subject to a 2.28% tax on gross premiums. Domestic companies also pay a 1% tax on gross investment income.

Public Utility Corporation Taxes. Public utility corporations are subject to an excise tax of 6.5% on net income.

Other Taxes. Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes, alcoholic beverages and deeds, and hotel/motel room occupancy, among other tax sources. The excise tax on motor fuels is 21¢ per gallon. The state tax on hotel/motel room occupancy is 5.7%.

On July 1, 2008, the Governor approved legislation raising the tax on cigarettes from \$1.51 per pack to \$2.51 per pack. The Department of Revenue estimates that the \$1.00 per pack cigarette tax increase resulted in a fiscal 2009 revenue increase of between \$140 million and \$150 million, and will result in a fiscal 2010 revenue increase of between \$120 million and \$130 million, compared to revenue generated at the \$1.51 per pack rate. The Department of Revenue estimates that revenue increases in subsequent years should also be between \$120 million and \$130 million annually.

ARRA “De-coupling.” The fiscal 2010 budget includes several provisions “decoupling” Commonwealth tax law from certain federal tax law changes made by the American Recovery and Reinvestment Act of 2009 (ARRA) and, in one instance, from the impact of an interpretation by the federal Internal Revenue Service that was effectively repealed (but only prospectively) by ARRA. The purpose of the decoupling provisions is to prevent revenue losses to the Commonwealth. The federal provisions at issue are ones that affect the scope of income or deductions of businesses under the federal Internal Revenue Code (IRC) and, in the absence of decoupling, would also apply for purposes of Commonwealth taxation. The specific federal provisions from which the Commonwealth legislation decouples include: (a) deferral of the recognition of certain cancellation of indebtedness income under the IRC; (b) suspension of IRC rules that would otherwise disallow or defer deductions for original issue discount claimed by issuers of debt obligations; and (c) relief from certain limitations on the use of losses after changes of ownership of a business under (i) IRS Notice 2008-83 (for periods prior to its effective repeal by ARRA) and (ii) new IRC Section 382(n) as added by ARRA.

In addition, the Commonwealth legislation specifically adopts a new federal exclusion from gross income of certain individuals. ARRA provides a subsidy of 65% of the cost of the Consolidated Omnibus Budget Reconciliation Act (or “COBRA,” which gives workers and their families who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances) continuation premiums for up to nine months for certain involuntarily terminated employees and for their families. This subsidy also applies to health care continuation coverage if required by states for small employers. ARRA provides for an exclusion from federal gross income of the COBRA subsidy. Because Commonwealth personal income tax law generally adopts IRC rules defining the scope of gross income as of January 1, 2005, it was necessary to adopt a specific Commonwealth exclusion to prevent this 2009 federal subsidy from being included in the Commonwealth taxable income of affected employees.

Tax Credits and Other Incentives. Massachusetts law provides for a variety of tax credits that may be applied against corporate excise or personal income taxes due, as applicable under relevant law. These credits are designed as benefits for specified economic activities as a means to encourage such business in the state. Certain of these credits, to the extent not used to reduce a current tax liability, may be carried forward, transferred or refunded, as specified in the applicable statute. In addition, certain statutory provisions may also provide an exemption from sales and use taxes for qualifying expenditures, or other specified tax benefits. The annual “tax expenditure budget” filed by the Governor provides a list, description and revenue estimate of various tax credits and incentives (for the fiscal 2011 tax expenditure budget, go to http://www.mass.gov/bb/h1/fy11h1/tax_11/hall.htm).

In July, 2007, the Commonwealth revised its film tax credit to provide tax credits of 25% of certain production costs incurred by film production companies in Massachusetts that incurred at least \$50,000 of film production costs in the state. Such production companies were also granted a sales and use tax exemption for goods purchased in the Commonwealth. A film production company may elect either to transfer all or part of its production credit to another taxpayer or to claim a refund of 90% of the amount that is not currently used. There is no cap on the amount of film tax credits that may be claimed. Under current law, the film tax credit will expire on January 1, 2023. Since the program’s inception, approximately \$261 million in tax credits have been approved or are currently in the process of being approved by the Department of Revenue. The Department of Revenue estimates that the tax credits reduced fiscal 2007 tax revenues by approximately \$12 million, reduced fiscal 2008 tax revenues by approximately \$11 million, reduced fiscal 2009 tax revenues by approximately \$110 million, and will reduce fiscal 2010 revenues by between \$100 million and \$130 million, not including any offsetting tax revenue from the film-related economic activity generated by the tax incentives. Virtually all of the reduction in tax payments resulting from credits that have been transferred or sold is reflected in the insurance, financial institutions, public utilities, and corporate tax categories. The Department of Revenue is required to prepare an annual report of the impact of the film tax credit, and is in the process of preparing its 2010 study.

Under legislation approved June 16, 2008 in support of the life sciences industry, up to \$25 million per year in tax incentives will be available to certified life sciences companies over a ten-year period, commencing January 1, 2009 for an aggregate amount of \$250 million, although the Governor has proposed in his fiscal 2011 budget to administratively limit the aggregate amount of tax incentives granted to \$20 million in fiscal 2011. The Department of Revenue estimates that this program will result in a revenue reduction of between \$2 million and \$5 million in fiscal 2010 and \$20 to \$25 million in fiscal 2011.

Tax Revenue Forecasting

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before January 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. Beginning in fiscal 2005, state finance law has required that the consensus tax revenue forecasts be net of the amount necessary to fully fund the pension system according to the applicable funding schedule, which amount is to be transferred without further appropriation from the General Fund to the Commonwealth's Pension Liability Fund. See "Employee Benefits; Pension" below.

The following table compares actual budgeted tax revenues to consensus tax revenue forecasts for fiscal 2005 to 2009 and as projected for 2010. The figures include sales tax receipts dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority and amounts transferred to the state pension system.

Tax Revenue Forecasting (in millions)						
	<u>Fiscal 2005</u>	<u>Fiscal 2006(1)</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Projected Fiscal 2010</u>
Consensus forecast	\$15,801	\$17,336	\$18,975	\$19,879	\$20,987	\$17,989
Total taxes per enacted budget	<u>\$15,968</u>	<u>\$17,448</u>	<u>\$18,969</u>	<u>\$19,879</u>	<u>\$21,402</u>	<u>\$18,879</u>
October revision	16,231	17,957	19,132	20,225	20,302	18,279
January revision	-	18,158	19,300	20,225	19,450	18,460
April revision	-	-	-	-	19,333	-
May revision	-	-	-	-	18,436	-
Actual budgeted operating tax revenues	<u>\$15,987</u>	<u>\$17,286</u>	<u>\$18,445</u>	<u>\$19,489</u>	<u>\$18,260</u>	
Actual revenues as a percentage of consensus forecast	101%	100%	97%	98%	87%	
Actual revenues as a percentage of total taxes per enacted budget	100%	99%	97%	98%	85%	

SOURCE: Executive Office for Administration and Finance.

(1) No consensus was reached for a fiscal 2006 tax revenue forecast; this table uses the forecast developed by the Executive Office for Administration and Finance. The Legislature used a tax revenue estimate of \$17.1 billion in developing its budget.

On January 13, 2009, a fiscal 2010 consensus tax revenue estimate of \$19.530 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means Committees. On May 6, 2009, the same parties agreed upon a downwardly revised fiscal 2010 consensus tax revenue estimate of \$17.989 billion. This revised consensus estimate was then adjusted for tax law changes enacted as part of the fiscal 2010 budget that were expected to increase fiscal 2010 tax revenues to \$18.879 billion. The most significant adjustment was for the increase in the sales and use tax rates from 5% to 6.25%, effective August 1, 2009, which was estimated to produce an additional \$759 million in fiscal 2010, of which \$275 million is dedicated to transportation. See "COMMONWEALTH CAPITAL INVESTMENT PLAN" below.

On October 15, 2009, based on an analysis of fiscal 2010 year-to-date revenue trends and taking into account revised economic forecasts and recommendations of the Governor's Council of Economic Advisors and the Department of Revenue, as well as outside economists from the Massachusetts Taxpayers Foundation and Suffolk University's Beacon Hill Institute who testified at a specially convened joint hearing held by the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means on October 8, 2009, the Secretary of Administration and Finance revised the fiscal 2010 revenue estimate downward by \$600 million, from \$18.879 billion to \$18.279 billion. The \$600 million downward revision was at the high end of the revenue shortfall estimates provided by the Department of Revenue, the Governor's Council of Economic Advisors, and forecasters who testified at the joint hearing. On January 7, 2010, the \$18.279 billion benchmark estimate was revised upward to \$18.460 billion based on the slightly improved year-to-date above benchmark performance through December 2009. See "Fiscal 2009, Fiscal 2010 and Fiscal 2011 Tax Revenues; *Fiscal 2010*" below for a discussion of fiscal 2010 revenues to date.

Fiscal 2009, Fiscal 2010 and Fiscal 2011 Tax Revenues

Fiscal 2009. Tax revenue collections for fiscal 2009 totaled \$18.260 billion, a decrease of \$2.620 billion, or 12.5%, compared to fiscal 2008. The following table shows the monthly tax collections in fiscal 2009 and the change from tax collections in fiscal 2008, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2009 that were dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority.

Fiscal 2009 Tax Collections (in millions) (1)

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion (2)</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$ 1,381.6	\$ 85.6	6.6%	\$ 60.7	\$ 54.6	\$ 1,266.3
August	1,309.1	51.0	4.1	56.9	51.2	1,201.0
September	2,099.4	(108.6)	(4.9)	74.2	49.3	1,976.0
October	1,150.2	(57.3)	(4.7)	57.6	51.8	1,040.7
November	1,256.2	(59.6)	(4.5)	52.0	46.8	1,157.4
December	1,862.4	17.9	1.0	82.1	46.1	1,734.2
January	1,790.7	(409.8)	(18.6)	62.5	56.2	1,672.0
February	953.7	(189.6)	(16.6)	46.8	42.1	864.8
March	1,603.3	(312.2)	(16.3)	82.5	41.5	1,479.3
April	1,779.2	(954.6)	(34.9)	51.9	46.7	1,680.7
May	1,282.6	(209.8)	(14.1)	52.2	47.0	1,183.3
<u>June</u>	<u>1,791.1</u>	<u>(472.5)</u>	<u>(20.9)</u>	<u>87.7</u>	<u>169.0</u>	<u>1,534.4</u>
Total (2)	<u>\$18,259.5</u>	<u>\$(2,619.5)</u>	<u>(12.5)%</u>	<u>\$ 767.1</u>	<u>\$ 702.3</u>	<u>\$ 16,790.2</u>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Includes adjustments of \$19.4 million on account of the first quarter, \$31 million on account of the second quarter, \$36.4 on account of the third quarter and \$32.4 on account of the fourth quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The fiscal 2009 tax revenue decrease of \$2.620 billion is attributable in large part to a decrease of approximately \$712.5 million, or 28.6%, in personal income tax estimated payments, a decrease of approximately \$147.6 million, or 1.6%, in withholding collections, a decrease of approximately \$825.2 million, or 36.4%, in income tax payments made with returns and extensions, an increase of approximately \$216.4 million, or 16.2%, in income tax refunds, a decrease of approximately \$218 million, or 5.3%, in sales tax collections, and a decrease of approximately \$449.6 million, or 17.6%, in corporate and business tax collections, which are partially offset by changes in other revenues (net of refunds). The fiscal 2009 collections were \$176.5 million below the benchmark estimate for the corresponding period, based on the Secretary of Administration and Finance's revised fiscal 2009 revenue estimate of \$18.436 billion announced on May 4, 2009.

Fiscal 2010. Preliminary tax revenue collections for the first eleven months of fiscal 2010, ending May 31, 2010, totaled approximately \$16.507 billion, an increase of \$39 million, or 0.2%, compared to the same period in fiscal 2009. The following table shows the tax collections for the first eleven months of fiscal 2010 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2010 that are dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority.

Fiscal 2010 Tax Collections (in millions) (1)

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion (3)</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$ 1,250.6	\$ (131.1)	(9.5)%	\$ 57.6	\$ 54.7	\$ 1,138.4
August	1,296.5	(12.7)	(1.0)	54.4	51.7	1,190.4
September	1,765.9	(333.6)	(15.9)	79.8	47.2	1,638.9
October	1,224.9	74.8	6.5	53.8	51.1	1,120.0
November	1,288.7	32.4	2.6	50.5	48.0	1,190.2
December	1,885.9	23.4	1.3	87.4	48.2	1,750.3
January	1,845.1	54.5	3.0	61.9	58.8	1,724.4
February	1,002.7	49.0	5.1	46.0	43.7	913.0
March	1,624.9	21.7	1.4	83.9	45.3	1,495.8
April	1,747.6	(31.6)	(1.8)	56.0	53.2	1,638.4
<u>May (2)</u>	<u>1,574.8</u>	<u>292.2</u>	<u>22.8</u>	<u>52.9</u>	<u>50.3</u>	<u>1,471.6</u>
Total (2)	<u>\$ 16,507.5</u>	<u>\$ 39.0</u>	<u>0.2%</u>	<u>\$684.2</u>	<u>\$552.0</u>	<u>\$ 15,271.2</u>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Figures are preliminary.

(3) Includes adjustment of \$30.2 million on the account of the first quarter, \$36.7 million on the account of the second quarter, and \$36.2 million on account of the third quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The year-to-date tax revenue increase of \$39 million through May 31, 2010 is attributable in large part to an increase of approximately \$22 million, or 1.3%, in corporate and business tax collections, an increase of approximately \$651 million, or 18.4%, in sales tax collections, which are partially offset by a decrease of approximately \$325 million, or 21.7%, in income tax cash estimated payments, a decrease of approximately \$197 million, or 14.0%, in income tax payments with returns and extensions, a decrease of approximately \$90 million, or 1.1%, in withholding collections, and changes in other revenues (net of refunds). The year-to-date fiscal 2010 collections through May were \$70 million below the May year-to-date benchmark, based on the January 7, 2010 revised revenue estimate of the Secretary of Administration and Finance of \$18.460 billion for fiscal 2010.

Fiscal 2011. Exhibit A to this Information Statement contains certain economic information concerning the Commonwealth which was prepared by the Massachusetts State Data Center at the University of Massachusetts Donahue Institute and which may be relevant in evaluating the economic and financial condition and prospects of the Commonwealth.

The following section outlines the projections underlying the development of the fiscal 2011 consensus tax revenue estimate as presented in the Governor's fiscal 2011 budget recommendations. On December 16, 2009 the Secretary for Administration and Finance and the House and Senate Committees on Ways and Means held a public hearing in Boston and heard testimony from the Department of Revenue, the Federal Reserve Bank of Boston, the Massachusetts Taxpayers Foundation, the Beacon Hill Institute, and economists from Harvard University and Northeastern University. The three branches of government subsequently agreed upon a fiscal 2011 tax revenue estimate of \$19.050 billion, consistent with testimony presented at the hearing.

The fiscal 2011 consensus tax revenue estimate of \$19.050 billion represents revenue growth of 3.2% actual and 2.5% baseline from the fiscal 2010 estimate of \$18.460 billion. The fiscal 2011 estimate assumes that the national and state economies will continue a moderate recovery throughout the fiscal year. In developing the consensus estimate, the Commonwealth relies on economic forecasts from Moody's Economy.com, Global Insight, and the New England Economic Partnership (NEEP). The economic forecasts (from November 2009) upon which the consensus revenue estimate is based are:

- The national economy is beginning to emerge from recession. Following declines in the first quarter and second quarter of calendar year 2009, real gross domestic product (GDP) growth turned positive in the third quarter and grew at an annualized rate of 2.8%, and is expected to remain positive through calendar year

2010. Real GDP growth for the full fiscal 2010 is projected to be 0.4% compared to growth of 2.2% in fiscal 2008 and -2.2% in fiscal 2009. In fiscal 2011, real GDP growth is projected to range from 2.4% to 2.7%;

- Massachusetts employment is expected to decline by 1.8% to 3.2% for fiscal 2010 as a whole. For fiscal 2011, Massachusetts employment is expected to change by -0.6% to 0.5%;
- Massachusetts personal income (excluding capital gains) is expected to decline by 1.9% to 0.1% for fiscal 2010 as a whole. For fiscal 2011, Massachusetts personal income is projected to grow by 2.6% to 3.5%;
- Massachusetts wages and salaries are projected to decline by 1.7% to 5.1% for fiscal 2010 as a whole. For fiscal 2011, the growth in Massachusetts wages and salaries is projected to range from 1.1% to 3.4%;
- Massachusetts retail sales growth is expected to decline by 0.4% to 1.9% for fiscal 2010 as a whole. For fiscal 2011, Massachusetts retail sales are projected to grow by 3.5% to 4.4%;
- Corporate profits at the national level are expected to increase by 3.8% to 22.6% for fiscal 2010 as whole (there are no forecasts for state corporate profits). For fiscal 2011, growth in corporate profits is projected to range from 2.9% to 6.4%.

In addition to the economic forecasts described above, the consensus revenue estimate takes into account forecasts for capital gains realizations and taxes. The consensus agreement capital gains forecast is based on the following considerations:

- Preliminary tax year 2008 data indicates that Massachusetts capital gains realizations decreased by approximately 60.4% in tax year 2008, to \$14.6 billion. Fiscal 2009 taxes on those capital gains realizations totaled approximately \$541 million, a decrease of approximately \$1.632 billion, or 75.1%, from fiscal 2008 (taxes on tax year 2008 capital gains realizations were paid mostly in fiscal 2009).
- The stock market, as measured by the average of the S&P 500 over the entire year, declined by 22.5% in calendar year 2009 (which largely determines fiscal 2010 capital gains taxes), and is expected to increase by 15.6%-24.7% in calendar year 2010 (which largely determines fiscal 2011 capital gains taxes). Massachusetts capital gains realizations are projected to decline by 13.5% in calendar year 2009 and increase by 10.3% in calendar year 2010.

A preliminary analysis of tax revenue collections in April and May, 2010 indicates that tax year 2009 capital gains tax realizations may have fallen by significantly more than the 13.5% assumed in the fiscal 2010 and fiscal 2011 consensus revenue estimates; however, higher than projected fiscal 2010 growth in other tax sources have mostly offset the shortfall in capital gains taxes, and are expected to do so in fiscal 2011 as well.

Federal and Other Non-Tax Revenues

Federal revenues are collected through reimbursements for the federal share of entitlement programs such as Medicaid and through block grants for programs such as Transitional Assistance to Needy Families (TANF). The amount of federal reimbursements to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance-of-effort spending level determined annually by the federal government. Federal reimbursements for fiscal 2009 were \$ 8.251 billion including \$870 million as a result of enhanced federal medical assistance percentage (FMAP) reimbursement under the American Recovery and Reinvestment Act (ARRA). Federal reimbursements for fiscal 2010 are currently projected to be \$8.589 billion.

Departmental and other non-tax revenues are derived from licenses, tuition, fees and reimbursements and assessments for services. For fiscal 2009, departmental and other non-tax revenues were \$2.326 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2009 included \$428.3 million for Registry of Motor Vehicles fees, fines and assessments, \$125.6 million from filing, registration and other fees paid to the Secretary of State's office, \$123.5 million in fees, fines and assessments charged by the court systems and \$68.7 million in tuition remitted to schools of higher education. Fiscal 2010 departmental and other non-tax revenues are projected to be \$2.889 billion.

Lottery Revenues. For the budgeted operating funds, inter-fund transfers include transfers of profits from the State Lottery Fund and the Arts Lottery Fund and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for transfers from the Lottery of \$1.018 billion, \$1.035 billion \$1.103, \$1.128 billion and \$1.003 billion in fiscal 2005 through 2009, respectively. Under state law, the net balance in the State Lottery Fund, as determined by the Comptroller on each September 30, December 31, March 31 and June 30, is to be used to provide local aid.

The Lottery Commission's operating revenues for fiscal 2009 were \$959 million. This includes a \$1 million spending reduction in operating expenses, a \$2 million spending reduction in administrative expenses and an additional \$760,000 spending reversion by the Lottery. The result was a shortfall of \$43.7 million against the assumed \$1.003 billion budget to fund various commitments appropriated by the Legislature from the State Lottery Fund and Arts Lottery Fund, including Lottery administrative expenses, and \$811 million in appropriations for local aid to cities and towns, with the balance, if any, to be transferred to the General Fund for the general activities of the Commonwealth. Legislation approved by the Governor on October 29, 2009 authorized the Comptroller to make a transfer from the General Fund to the State Lottery Fund to cure the deficiency.

The fiscal 2010 budget assumes total transfers from the Lottery of \$937.5 million to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses and \$758.8 million in appropriations for local aid to cities and towns, with the balance, if any to be transferred to the General Fund for the general activities of the Commonwealth. For fiscal 2010, the State Lottery Commission is currently projecting net operating revenues of approximately \$987.0 million, which would result in an expected surplus of approximately \$49.5 million against the assumed \$937.5 million at the end of fiscal 2010.

Tobacco Settlement. In November, 1998, the Commonwealth joined with other states in a master settlement agreement that resolved the Commonwealth's and other states' litigation against the cigarette industry. Under the agreement, cigarette companies have agreed to make both annual payments (in perpetuity) and five initial payments (for the calendar years 1999 to 2003, inclusive) to the settling states. Each payment amount is subject to applicable adjustments, reductions and offsets, including upward adjustments for inflation and downward adjustments for decreased domestic cigarette sales volume.

The Commonwealth's allocable share of the base amounts payable under the master settlement agreement is approximately 4.04% which equals more than \$8.3 billion through 2025, subject to adjustments, reductions and offsets. However, in pending litigation tobacco manufacturers are claiming that because of certain developments they are entitled to reduce future payments under the master settlement agreement, and certain manufacturers withheld payments to the states due in April, 2006, April, 2007, April 2008 and April, 2009. The Commonwealth believes it is due the full amount and is pursuing its claim to unreduced payments. See "LEGAL MATTERS - Other Revenues." The Commonwealth was also awarded \$414.3 million from a separate Strategic Contribution Fund established under the master settlement agreement to reward certain states' particular contributions to the national tobacco litigation effort. This additional amount, also subject to a number of adjustments, reductions and offsets, is payable in equal annual installments during the years 2008 through 2017.

Tobacco settlement payments were initially deposited in a permanent trust fund (the Health Care Security Trust), with only a portion of the moneys made available for appropriation. Beginning in fiscal 2003, however, the Commonwealth has appropriated the full amount of tobacco settlement receipts in each year's budget. The balance accumulated in the Health Care Security Trust amounted to \$509.7 million at the end of fiscal 2007. The fiscal 2008 budget established the State Retiree Benefits Trust Fund for the purposes of depositing, investing and disbursing amounts set aside solely to meet liabilities of the state employee' retirement system for health care and other non-pension benefits for retired members of the system. In fiscal 2008 the Health Care Security Trust's balance was transferred to the State Retiree Benefits Trust Fund. The fiscal 2009 and 2010 budgets transfer all payments received by the Commonwealth in fiscal 2009 and 2010 pursuant to the master settlement agreement from the Health Care Security Trust to the General Fund.

The following table sets forth the tobacco settlement amounts received by the Commonwealth to date. The table does not include approximately \$30 million in withheld payments in fiscal 2006, approximately \$27 million in withheld payments in fiscal 2007, approximately \$21 million in withheld payments in fiscal 2008 and approximately \$37 million in withheld payments in fiscal 2009 that the Commonwealth continues to pursue. See "LEGAL MATTERS – Other Revenues."

Payments Received Pursuant to the Tobacco Master Settlement Agreement (in millions)(1)

Fiscal Year	Initial Payments	Annual Payments	Total Payments
2000	\$186.6(2)	\$139.6	\$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004	-	253.6	253.6
2005	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
2009	-	315.2	315.2
<u>2010</u>	<u>-</u>	<u>263.7</u>	<u>263.7</u>
Total	<u>\$434.0</u>	<u>\$2,599.2</u>	<u>\$3,033.3</u>

SOURCE: Office of the Comptroller.

(1) Amounts are approximate. Totals may not add due to rounding.

(2) Payments received for both 1999 and 2000.

Limitations on Tax Revenues

Chapter 62F of the General Laws, which was enacted by the voters in November, 1986, establishes a state tax revenue growth limit for each fiscal year equal to the average positive rate of growth in total wages and salaries in the Commonwealth, as reported by the federal government, during the three calendar years immediately preceding the end of such fiscal year. The growth limit is used to calculate “allowable state tax revenue” for each fiscal year. Chapter 62F also requires that allowable state tax revenues be reduced by the aggregate amount received by local governmental units from any newly authorized or increased local option taxes or excises. Any excess in state tax revenue collections for a given fiscal year over the prescribed limit, as determined by the State Auditor, is to be applied as a credit against the then-current personal income tax liability of all taxpayers in the Commonwealth in proportion to the personal income tax liability of all taxpayers in the Commonwealth for the immediately preceding tax year. The law does not exclude principal and interest payments on Commonwealth debt obligations from the scope of its tax limit. However, the preamble contained in Chapter 62F provides that “although not specifically required by anything contained in this chapter, it is assumed that from allowable state tax revenues as defined herein the Commonwealth will give priority attention to the funding of state financial assistance to local governmental units, obligations under the state governmental pension systems and payment of principal and interest on debt and other obligations of the Commonwealth.”

Tax revenues in fiscal 2003 through 2009 were lower than the “allowable state tax revenue” limit set by Chapter 62F and are expected to be lower than the allowable limit in fiscal 2010.

Chapter 62F was amended by the fiscal 2003 and fiscal 2004 general appropriations acts to establish an additional tax revenue limitation. The fiscal 2003 budget created a quarterly cumulative “permissible tax revenue” limit equal to the cumulative year-to-date actual state tax revenue collected during the same fiscal period in the prior fiscal year, increased by the sum of the most recently available year-over-year inflation rate plus two percentage points. Effective July 1, 2003, at the end of each quarter the Commissioner of Revenue must calculate cumulative permissible tax revenue. The Comptroller must then divert tax revenue in excess of permissible tax revenue from the General Fund to a Temporary Holding Fund to make such excess revenue unavailable for expenditure. If actual tax revenue collections fall short of the permissible limit, the difference flows back into the General Fund. At the end of each fiscal year, tax revenue in excess of permissible state tax revenue for the year is to be held in the Temporary Holding Fund pending disposition by the Comptroller. The Comptroller is required to first use any funds in the Temporary Holding Fund to reimburse the Commonwealth Stabilization Fund for any amounts expended from the Stabilization Fund during the fiscal year. The general law amendments in the fiscal 2004 budget require that at the end of each fiscal year, the Comptroller must transfer remaining excess revenue from the Temporary Holding Fund back to the General Fund for inclusion in consolidated net surplus.

As of December 31, 2009 actual state tax revenue has not exceeded the permissible state tax revenue limit set by Chapter 62F.

The following table shows the quarter by quarter trend of the Temporary Holding Fund for fiscal 2006 through the second quarter of fiscal 2010.

Temporary Holding Fund (in thousands)

	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>
<u>First quarter - period ended September 30</u>					
Cumulative net tax revenues, current fiscal year	\$ 4,362,131	\$ 4,512,171	\$ 4,796,700	\$4,870,214	\$4,374,038
Cumulative net tax revenues, prior fiscal year	4,046,872	4,367,285	4,542,170	4,796,700	4,870,214
Permissible growth rate(1)	6.32%	8.05%	6.94%	7.89%	4.13%
Permissible state tax revenues(2)	<u>\$ 4,302,513</u>	<u>\$ 4,718,720</u>	<u>\$ 4,857,306</u>	<u>\$5,175,160</u>	<u>\$5,080,266</u>
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$ 59,618</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Second quarter - period ended December 31</u>					
Cumulative net tax revenues, current fiscal year	\$ 8,526,671	\$ 8,831,036	\$ 9,194,513	\$9,200,005	\$8,834,580
Cumulative net tax revenues, prior fiscal year	7,889,352	8,526,671	8,831,036	9,194,513	9,200,005
Permissible growth rate(1)	6.88%	7.62%	6.93%	8.34%	2.10%
Permissible state tax revenues(2)	<u>\$ 8,432,376</u>	<u>\$ 9,175,977</u>	<u>\$ 9,442,585</u>	<u>\$9,960,876</u>	<u>\$9,392,837</u>
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$ 94,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Third quarter - period ended March 31</u>					
Cumulative net tax revenues, current fiscal year	\$ 12,946,485	\$ 13,659,295	\$ 14,485,334	\$13,599,204	
Cumulative net tax revenues, prior fiscal year	11,994,245	12,946,485	13,659,294	14,485,334	
Permissible growth rate(1)	7.44%	6.92%	7.41%	7.60%	
Permissible state tax revenues(2)	<u>\$ 12,886,497</u>	<u>\$ 13,841,734</u>	<u>\$ 14,671,584</u>	<u>\$15,586,799</u>	
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$ 59,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>Fourth Quarter - Period ending June 30</u>					
Cumulative net tax revenues, current fiscal year	\$ 18,592,175	\$ 19,848,064	\$ 21,009,329	\$18,513,036	
Cumulative net tax revenues, prior fiscal year	17,190,450	18,592,175	19,848,064	21,009,085	
Permissible growth rate(1)	7.85%	6.52%	7.66%	6.27%	
Permissible state tax revenues(2)	<u>\$ 18,540,072</u>	<u>\$ 19,804,571</u>	<u>\$ 21,368,426</u>	<u>\$22,325,305</u>	
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$ 52,103</u>	<u>\$ 43,493</u>	<u>\$ -</u>	<u>\$ -</u>	

SOURCES: Office of the Comptroller and Executive Office for Administration and Finance.

(1) Defined as inflation plus 2%, but not less than 0%.

(2) Defined as cumulative net state tax revenues, prior fiscal year, multiplied by 1 plus the permissible growth rate.

Local Aid

Commonwealth Financial Support for Local Governments. The Commonwealth makes substantial payments to its cities, towns and regional school districts (local aid) to mitigate the impact of local property tax limits on local programs and services. See “*Property Tax Limits*” below. Local aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct local aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called “cherry sheet” prepared by the Department of Revenue, excluding certain pension funds and non-appropriated funds. In fiscal 2009, approximately \$4.724 billion of the Commonwealth’s budget was allocated to direct local aid. The fiscal 2010 budget provides \$4.837 billion of state-funded local aid to municipalities.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds is earmarked for public education and is distributed through a formula specified in Chapter 70 of the General Laws designed to provide more aid to the Commonwealth’s poorer communities. The legislation requires the Commonwealth to distribute aid to ensure that each district reaches at least a minimum level of spending per public education pupil. Since fiscal 1994, the Commonwealth has fully funded the requirements imposed by this legislation in each of its annual budgets. Beginning in fiscal 2007, the Legislature implemented a

new model for the Chapter 70 program which was adjusted to resolve aspects of the formulas that were perceived to be creating inequities in the aid distribution. The fiscal 2010 budget includes state funding for Chapter 70 education aid of \$3.870 billion and also includes \$167 million of federal State Fiscal Stabilization Funds, provided for through ARRA, for Chapter 70 education aid. The \$4.037 billion in state and federal funds for Chapter 70 brings all school districts to the foundation level called for by 1993 education reform legislation, and is an increase of \$89 million over the fiscal 2009 amount of \$3.948 billion.

In fiscal 2009, cities and towns were budgeted to receive \$810 million in aid from the State Lottery Fund and \$378 million from Additional Assistance. In addition, \$124 million in aid was budgeted to support any potential lottery shortfalls in fiscal 2009. Due to the economic recession and falling state tax revenues, the Additional Assistance distribution was reduced through Section 9C budget cuts by \$36.9 million (9.74%) and the General Fund supplement to hold the Lottery aid harmless was also reduced \$91 million (9.74%). The fiscal 2009 budget provided for State Lottery Fund distributions of approximately \$843 million. The fiscal 2010 budget eliminated lottery local aid and Additional Assistance and created a new local aid funding source called Unrestricted General Government Aid. This account is now the other major component of direct local aid, providing unrestricted funds for municipal use. The Commonwealth is projected to spend \$936 million in Unrestricted General Government Aid in fiscal 2010. This amount is \$377 million lower than the total amount originally budgeted for through lottery aid and additional assistance in fiscal 2009.

Property Tax Limits. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein or (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. The law contains certain voter override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. Between fiscal 1981 and fiscal 2000, the aggregate property tax levy grew from \$3.347 billion to \$11.553 billion, a compound annual growth rate of 4.48%.

Medicaid and the Commonwealth Care Trust Fund

The Commonwealth's Medicaid program, called MassHealth, provides health care to low-income children and families, certain low-income adults, disabled individuals and low-income elders. The program, administered by the Office of Medicaid within the Executive Office of Health and Human Services, generally receives 50% in federal reimbursement on most expenditures. The American Recovery and Reinvestment Act (ARRA) increased the federal medical assistance percentage (FMAP) for expenditures made between October 1, 2008, and December 31, 2010 from 50% to between 56.2% and 61.59%, depending on the Commonwealth's unemployment rate; the Commonwealth's FMAP under ARRA for all expenditures in fiscal 2010 is 61.59%. Beginning in fiscal 1999, payments for some children's benefits became 65% federally reimbursable under the Children's Health Insurance Program (CHIP).

For fiscal 2010 nearly 30% of the Commonwealth's budget is devoted to Medicaid. It is the largest and has been one of the fastest growing items in the Commonwealth's budget. Medicaid spending from fiscal 2006 to fiscal 2010 is estimated to have grown by 6.6% on a compound annual basis (including Medicaid administrative expenses and off-budget Medicaid expenses). During the same period, Medicaid enrollment is estimated to have increased 3.2% on a compound annual basis, driven largely by eligibility expansions and the individual mandate prescribed by the 2006 health care reform legislation.

The fiscal 2010 estimated spending is \$9.291 billion which includes an assumed fiscal 2010 deficiency figure of \$432 million. The Governor has approved supplemental legislation that includes \$200 million in additional funding for the program and has filed supplemental legislation that includes an additional \$163 million. The remaining amount is expected to be solved by MassHealth's ability to transfer surplus funds from the MassHealth Medicare Clawback account. MassHealth is also working on quantifying potential additional exposures in the Children's Behavioral Health Initiative related to compliance with the remedial plan ordered in *Rosie D. et al v. The Governor*. See "LEGAL MATTERS – Programs and Services" herein.

The Governor's fiscal 2011 budget recommendations include \$9.838 billion for the MassHealth program. This is 5.9% higher than fiscal 2010 estimated spending of \$9.291 billion. The fiscal 2011 budget fully maintains eligibility for MassHealth and funds projected enrollment growth of 3%. The budget keeps MassHealth costs affordable for the Commonwealth and members by maintaining appropriate discipline on rates, instituting new program integrity measures and restructuring dental services. In light of fiscal challenges, the MassHealth adult dental benefit would be restructured to cover preventative and emergency services but not restorative dental services. This change will not impact children or developmentally disabled members (DDS), and other members will be able to have access to restorative dental services at Community Health Centers through the Health Safety Net.

Medicaid Expenditures and Enrollment (in millions)

	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009 (1)</u>	<u>Estimated Fiscal 2010</u>
Budgeted Medicaid program expenses	\$6,756.4	\$7,412.5	\$8,102.5	\$8,552.0	\$9,291.0
Budgeted Medicaid administrative expenses	127.6	133.8	132.4	143.7	91.1
Off-Budget Medicaid expenses	292.0	290.0	-	-	-
Total expenditures	7,176.0	7,836.3	8,234.9	8,695.7	9,382.1
Annual percentage growth in total expenditures	14.1%	9.2%	5.1%	5.6%	7.9%
Enrollment	1,042,344.9	1,094,843.7	1,139,284.0	1,177,922.0	1,220,144.0
Annual percentage growth in enrollment	5.5%	5.0%	4.1%	3.4%	3.6%

SOURCE: Executive Office for Administration and Finance.

(1) The Executive Office of Health and Human Services and Medicaid administrative budget for fiscal 2010 was reduced due to the shifting of information technology resources to a new account.

Federal 1115 MassHealth Demonstration Waiver.

July 1, 2008 – June 30, 2011 Waiver Period

The current Medicaid waiver agreement that was signed on December 22, 2008 currently authorizes federal reimbursement for up to approximately \$22.7 billion in state health care spending from fiscal 2009 through fiscal 2011, which allows the Commonwealth to spend up to \$5.6 billion more over the three-year period than for fiscal 2006 through fiscal 2008. It enables the Commonwealth to claim federal reimbursement for all programs at current eligibility and benefit levels (including for Commonwealth Care's subsidized coverage of adults up to 300% of the federal poverty level). The Commonwealth is due to file a waiver renewal application at the end of fiscal 2010 for the period starting July 1, 2011 through June 30, 2014.

Commonwealth Care. State health care reform legislation enacted in 2006 created the Commonwealth Health Insurance Connector Authority to, among other things, administer the new Commonwealth Care program, a subsidized health insurance coverage program for adults whose income is up to 300% of the federal poverty level and who do not have access to employer-sponsored insurance. Commonwealth Care began enrolling individuals on October 1, 2006. As of May 1, 2010, over 150,000 residents with incomes up to 300% of the federal poverty level were enrolled in Commonwealth Care.

The fiscal 2010 budget currently includes \$631.7 million for Commonwealth Care. The fiscal 2010 budgeted amount for Commonwealth Care is lower than fiscal 2009 program spending for two reasons: (i) as proposed by the Legislature and enacted into law, Commonwealth Care coverage previously provided to "aliens with special status" (legal immigrants who do not qualify for federal reimbursement because of their arrival in the United States within the last five years) was terminated as of September 1, 2009; and (ii) budgeted amounts reflect new savings initiatives designed to control Commonwealth Care costs while maintaining the integrity of the program. See "LEGAL MATTERS - *Finch, et al. v. Health Insurance Connector Authority, et al.*" The \$631.7 million includes legislation approved by the Governor on August 7, 2009 that provides an additional \$40 million to continue state-subsidized health coverage for these aliens with special status through June 30, 2010. On August 31, 2009, the Governor and the Connector Authority announced plans to contract with a health plan to offer this continuing coverage beginning as early as October 1, 2009 – under a new "Commonwealth Care Bridge" program. On October 1, 2009, eligible aliens with special status began to be enrolled in the health plan selected to offer this continuing coverage through Commonwealth Care Bridge.

The Connector Authority continues to monitor cost and enrollment trends for Commonwealth Care for fiscal 2010 and will revise estimates based on updated information. Current spending estimates range from \$715 million to \$730 million, reflecting different potential enrollment scenarios for the program. The cost estimates discussed above represent projections of gross funding needs for Commonwealth Care (net of enrollee contributions) and do not account for federal reimbursement under the Commonwealth's Medicaid waiver.

The Governor's fiscal 2011 budget recommendations preserve current eligibility for Commonwealth Care and provide \$796.9 million to fund additional enrollment in fiscal 2011 (funding over 20,000 additional members in the program from current enrollment levels). The budget does not assume any increases in Commonwealth Care enrollee premiums in light of current federal "maintenance of effort" requirements. The budget assumes that Plan Type 1 co-payments would increase by \$1 for generic drugs, consistent with MassHealth changes (with no co-payment increases for Plans Type 2 and 3) and that dental coverage for Plan Type 1 members would be restructured in the same manner as MassHealth dental benefits. The \$769.9 million General Fund contribution includes \$75 million for the Commonwealth Care Bridge program. This program will continue to be run by the Secretary of Administration and Finance, the Secretary of Health and Human Services and the Executive Director of the Connector.

In addition to the General Fund supported transfer to the Commonwealth Care Trust Fund, the Commonwealth Care program is financed by a number of other revenues sources, including:

Fair Share Assessment:

- The "Fair Share" test requires employers with over 11 full-time equivalents to either make a "fair and reasonable" contribution to health insurance for their full-time employees or pay a \$295 per employee annual assessment to the state. Revenue estimates for the fair share assessment average over \$10 million annually.

Cigarette Tax Revenue:

- Starting in fiscal 2009, the state raised taxes on cigarettes by \$1 per pack and dedicated the increased revenues to the Commonwealth Care Trust Fund. These revenues are projected to total over \$100 million per year.

Individual Tax Penalties:

- Adults who can afford health insurance but fail to purchase coverage are required to pay monetary penalties when filing their tax returns. These revenues are projected to generate over \$12 million in fiscal 2010 and 2011.

Health Safety Net/Health Safety Net Trust Fund. Overseen by the state's Division of Health Care Finance and Policy, the Health Safety Net (HSN) reimburses hospitals and community health centers for health care services provided to low- and moderate-income uninsured or underinsured residents. It was formerly known as the Uncompensated Care Pool.

Success in expanding enrollment in health insurance through health care reform has resulted in decreased Health Safety Net utilization and payments. As compared to Uncompensated Care Pool fiscal 2007, Health Safety Net payments sustained a record drop through Health Safety Net fiscal 2009 (from \$661 million to \$414 million).

The fiscal 2010 budget assumes \$390 million in dedicated resources for the Health Safety Net, including \$320 million from hospital and insurer assessments and \$70 million from supplemental payments made by other sources. The fiscal 2010 budget also anticipates retaining an additional \$21.1 million in accumulated Health Safety Net fiscal 2008 and fiscal 2009 surpluses within the Health Safety Net Trust Fund to help address fiscal 2010 demand. In light of these resources, while there is significant uncertainty around Health Safety Net program demand for fiscal 2010 given the downturn in the economy and lags in data, demand is currently projected to exceed these revenues by \$30 million to \$60 million. In the event that demand exceeds available revenues, the shortfall is expected to be allocated among hospitals based on rules already established in regulation.

The Governor's fiscal 2011 budget assumes \$420 million in dedicated resources for the Health Safety Net, including \$320 million from hospital and insurer assessments, \$70 million from supplemental payments made by other sources and a \$30 million contribution from the General Fund.

The Division of Health Care Finance and Policy continues to monitor Health Safety Net service volume and costs, to update evolving trends relating to Trust Fund care demand. Projections will likely change as more data emerges regarding demand on the Health Safety Net.

Both Commonwealth Care and Health Safety Net spending occurs in the Commonwealth Care Trust Fund. As noted above, both the Commonwealth Care program and Health Safety Net are financed by a number of different sources. The transfer to the Commonwealth Care Trust Fund detailed in the Statutory Basis Distribution of Budgetary Revenues and Expenditures table above only reflects the General Fund-supported portion of Commonwealth Care and the Health Safety Net.

Federal Health Care Reform. On March 23, 2010 the President signed into law a comprehensive national health reform measure, the Patient Protection and Affordable Health Care Act, PPACA (P.L. 111-148). Many of the provisions that were passed in the PPACA are similar to the Massachusetts health care reform model including the introduction of a health insurance exchange, insurance market reforms, individual mandate requirements to ensure that individuals are accessing health insurance, and rules designed to encourage employers to contribute to health insurance for their employees. Unlike many other states, the Commonwealth will not need to devote new state funding to cover populations under the federal Medicaid expansions, as the Commonwealth is already providing coverage exceeding the new federal coverage levels. Instead, PPACA will provide the Commonwealth with significant additional federal funding for the Commonwealth's health insurance programs for low-income individuals starting in 2014. The Commonwealth will also not need to devote significant resources to implementation. The Commonwealth is aggressively analyzing this legislation to identify immediate funding opportunities and compliance requirements for the Commonwealth and begin planning for further adjustments needed as key provisions of national health care reform are gradually phased in (with many taking effect in 2014).

Other Health and Human Services

Other Health and Human Services—Budgeted Operating Funds (in millions)

<u>Expenditure Category</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Projected Fiscal 2010</u>
Office of Health Services						
Department of Mental Health	\$ 569.8	\$ 603.4	\$ 630.2	\$ 651.0	\$ 623.5	\$633.6
Department of Public Health	431.1	473.6	543.6	546.8	548.5	495.2
Division of Healthcare and Finance Policy	<u>9.2</u>	<u>9.9</u>	<u>10.3</u>	<u>11.7</u>	<u>14.0</u>	<u>17.4</u>
Sub Total	\$1,010.1	\$1,086.9	\$1,184.1	\$1,209.6	\$1,186.0	\$1,146.2
Office of Children, Youth, and Family Services						
Department of Social Services	700.9	729.2	783.4	816.2	810.0	770.2
Department of Transitional Assistance	772.2	781.8	781.9	814.2	859.5	758.1
Department of Youth Services	130.3	141.9	152.8	157.3	154.7	147.1
Office for Refugees and Immigrants	<u>0.3</u>	<u>0.7</u>	<u>1.2</u>	<u>1.6</u>	<u>1.3</u>	<u>0.3</u>
Sub Total	\$1,603.7	\$1,653.6	\$1,719.3	\$1,789.3	\$1,823.5	\$1,675.7
Office of Disabilities and Community Services						
Department of Developmental Services	1,058.1	1,122.2	1,179.6	1,228.9	1,250.6	1,252.4
Other	<u>112.0</u>	<u>118.6</u>	<u>128.3</u>	<u>135.9</u>	<u>133.6</u>	<u>120.4</u>
Sub Total	\$1,170.1	\$1,240.8	\$1,307.9	\$1,364.8	\$1,384.2	\$1,372.8
Department of Elder Affairs	299.5	305.6	278.8	293.9	279.7	253.9
Executive Office of Human Services (1)	90.8	111.7	92.5	92.6	101.0	182.0 (2)
Veterans' Services (3)	<u>51.8</u>	<u>35.0</u>	<u>42.7</u>	<u>46.4</u>	<u>51.9</u>	<u>28.2</u>
Sub Total	<u>\$442.1</u>	<u>\$452.3</u>	<u>\$414.0</u>	<u>\$432.9</u>	<u>\$432.6</u>	<u>\$464.1</u>
Budgeted Expenditures and Other Uses	<u>\$4,226.0</u>	<u>\$4,433.6</u>	<u>\$4,625.3</u>	<u>\$4,796.6</u>	<u>\$4,828.3</u>	<u>\$4,658.8</u>

SOURCES: Fiscal 2004-2009 Office of the State Comptroller; fiscal 2010, Executive Office for Administration and Finance.

(1) Includes the Department of Medical Assistance (DMA) which was a separate department through fiscal 2004; but consolidated into the Executive Office of Human Services in fiscal 2005. Fiscal 2010 includes Medicaid program administration.

(2) Fiscal 2010 spending includes a new IT chargeback account that incorporates IT spending in other departments within the Executive Office of Health and Human Services.

(3) For fiscal 2010, the Veterans' Benefits account, worth approximately \$30.0 million, is included in the Direct Local Aid category.

Office of Health Services. The Office of Health Services encompasses programs and services from the Department of Public Health, the Department of Mental Health and the Division of Health Care Finance and Policy. Their goal is to promote healthy people, families, communities and environments through coordinated care. The departments work in unison to determine that individuals and families can live and work in their communities self sufficiently and safely. The following are a few examples of programs and services provided by this office: substance abuse programs, immunization services, early intervention programs, environmental health services, youth violence programs, supportive housing and residential services for the mentally ill of all ages, and emergency and acute hospital services. The Division of Health Care Finance and Policy works to improve the delivery of and financing of health care by providing information, developing policies and promoting efficiency that benefit the people of the Commonwealth.

Office of Children, Youth and Family Services. The Office of Children, Youth and Family Services works to provide services to children and their families through a variety of programs and services. The programs and services are offered through the Department of Social Services, the Department of Youth Services, the Department of Transitional Assistance and the Office of Refugees and Immigrants. The collaborative goal of this office is to work to ensure that individuals, children and families are provided with public assistance needed as well as access to programs that will allow for them to be safe and self-sufficient.

Through the Department of Transitional Assistance, the Commonwealth administers four major programs of public assistance for eligible state residents: transitional aid to families with dependent children (TAFDC); emergency assistance (EA); emergency aid to the elderly, disabled and children (EAEDC); and the state supplemental benefits for residents enrolled in the federal supplemental security income (SSI) program. In addition, the Department is responsible for administering the entirely federally funded Supplemental Nutrition Assistance Program (SNAP, formerly food stamps), which provides food assistance to low-income families and individuals. The Department oversees state homeless shelter programs and spending for families and individuals. Lastly, beginning in fiscal 2008, the Department established a new supplemental nutritional program, which provides small supplemental benefits to certain working families currently enrolled in the food stamps program.

The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of aid to families with dependent children and replaced it with block grant funding for transitional assistance to needy families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for the Commonwealth was established at \$459.4 million annually for federal fiscal years 1997 through 2006. The Commonwealth must meet federal maintenance-of-effort requirements in order to be eligible for the full TANF grant award. In February, 2006, federal legislation reauthorized the TANF block grant providing \$459.4 million annually to the Commonwealth for the next five years, provided that the Commonwealth meets federal work requirements outlined below.

Under federal TANF program rules, the Commonwealth must meet the federal work participation rate (*i.e.*, the percentage of families receiving assistance that are participating in work or training-related activities allowed under the program) of 50% for all TANF families and 90% for two-parent families. Through federal fiscal 2008, The Commonwealth was eligible under the federal program rules to lower the state's total required work participation rate requirement by applying credits earned through annual caseload reductions while continuing to meet federal requirements for state maintenance of effort spending. Beginning in fiscal 2008, The Commonwealth became subject to a new methodology in determining the total annual caseload reduction credit that could be applied to the state's work participation target. Because the new methodology diminished the state's ability to lower its work participation target, the state established a supplemental nutrition program. Working families enrolled in this new program were counted towards the work participation rate and allowed the state to meet the federal participation rate. This avoided potential losses in federal revenue due to penalties, while providing the working poor with a food assistance benefit. In February 2010, the state was informed that, based on the caseload reduction credit for 2008, the revised target was 0%. Consistent with federal guidance in 2009 (under the stimulus act), the state's target participation rate for 2008 through 2011 would be the lower of the 2008 or 2009 targets. Based on the 0% for 2008, the targets for 2008 through 2011 will be 0%. Since the supplemental nutrition program was no longer needed to enable The Commonwealth to meet its target, the program was suspended.

Office of Disabilities and Community Services. The Office of Disabilities and Community Services assists in the welfare of many disadvantaged residents of the Commonwealth through a variety of agencies. Programs and services are provided by the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Deaf and Hard of Hearing, the Massachusetts Commission for the Blind, the Department of Developmental Services

(previously the Department of Mental Retardation) and the Soldiers' Homes in Chelsea and Holyoke. These agencies provide assistance to this population and create public awareness to the citizens of the Commonwealth. Other facets of the Office of Disabilities and Community Services include both oversight and inter-agency collaboration which attend to the needs of the community, disabled and multi-disabled population. This holistic approach is designed to ensure that those of all ages with disabilities are able to lead functionally equivalent lives despite limitations that they may face.

Department of Elder Affairs. The Department of Elder Affairs (Elder Affairs) provides a variety of services and programs to eligible seniors and their families. Elder Affairs administers supportive and congregate housing programs, regulates assisted living residences, provides home care and caregiver support services, and nutrition programs. Eligibility for services is based largely on age, income, and disability status. The Department of Elder Affairs also administers the Prescription Advantage Program.

Department of Veterans' Services. The Department of Veterans' Services provides a variety of services, programs and benefits to eligible veterans and their families. The Department of Veterans' Services provides outreach services to help eligible veterans enroll in a variety of programs, administers supportive housing and homeless services, and provides over 65,000 veterans, veterans' spouses and parents with annuity and benefit payments.

Employee Benefits

Group Insurance. The Group Insurance Commission (GIC) provides health insurance benefits to approximately 300,000 active and retired state employees and their dependents. Currently, employee contributions are based on date of hire; all employees hired on or before June 30, 2003 contribute 20% of total premium costs and employees hired after June 30, 2003 pay 25% of premium costs. The fiscal 2010 general appropriations act increased premium contributions by 5% for all employees.

The fiscal 2010 budget is consistent with Government Accounting Standards Board (GASB) Statement No. 45 and the state's intent to consolidate spending for current retirees with deposits towards the Commonwealth's non-pension retiree liability. See "*Other Post-Retirement Benefit Obligations (OPEB)*" below. The original fiscal 2010 budget appropriated \$959 million for the GIC to fund health coverage for active employees and their dependents. The fiscal 2010 budget authorizes transfers of up to \$372 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current retirees and their dependents. Budgeted funding at the GIC in fiscal 2010, including health coverage for active and retired employees and other costs, totals \$1.435 billion.

The GIC was facing a budget shortfall at the outset of fiscal 2010. To address this gap, the GIC Commission voted to increase co-pays and establish deductibles effective February 1, 2010. Co-pays were increased by about \$5 for most services, which brought state employee benefits in line with private sector employee benefits. In addition, a \$250 deductible was added for single coverage and up to \$750 for families. The benefit cuts are projected to save the Commonwealth \$18 million in fiscal 2010 and annualize to over \$50 million in savings in fiscal 2011.

Pension. Almost all non-federal public employees in the Commonwealth participate in defined-benefit pension plans administered pursuant to state law by 105 public retirement systems. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the Massachusetts teachers' retirement system and teachers in the Boston public schools, who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). The members of the retirement system do not participate in the Social Security System. Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority, and of counties, cities and towns (other than teachers) are covered by 103 separate retirement systems and the Commonwealth is not responsible for making contributions towards the funding of these retirement systems. Pension benefits for state employees are administered by the State Board of Retirement, and pension benefits for teachers are administered by the Teachers' Retirement Board. Investment of the assets of the state employees' and Massachusetts teachers' retirement systems is managed by the Pension Reserves Investment Management (PRIM) Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets. Many such retirement boards invest their assets with the PRIM Board, and legislation approved in 2007 allows the PRIM Board to take over the assets of local retirement systems that are less than 65% funded and have failed to come within 2% of the PRIM Board's performance over a ten-year period. With

a very small number of exceptions, the members of these state and local retirement systems do not participate in the federal Social Security System.

The Massachusetts State Employees' Retirement System ("MSERS") and the Massachusetts Teachers' Retirement System ("MTRS") are the two largest plans of the public contributory retirement systems operated in the Commonwealth. As of January 1, 2010, the MSERS had 85,839 active members and 52,486 retirees and beneficiaries. As of January 1, 2009, the MTRS had 89,788 active members and 52,107 retired members and beneficiaries.

The MSERS is a single-employer defined-benefit public employee retirements system. The MTRS is a defined-benefit public employee retirement system managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefits of the MTRS. Members become vested after ten years of creditable service. Superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the MSERS and the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets. The policies provide for uniform benefit and contribution requirements for all contributory public employee retirement systems. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service and group creditable service, and group classification.

Legislation approved in 1997 provided, subject to legislative approval, for annual increases in cost-of-living allowances equal to the lesser of 3% or the previous year's percentage increase in the United States consumer price index on the first \$12,000 of benefits for members of the MSERS and MTRS. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved for its retirees. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules. Legislation approved in 1999 allows local retirement systems to increase the cost-of-living allowance up to 3% during years that the previous year's percentage increase in the United States consumer price index is less than 3%.

Employee Contributions. The MSERS and MTRS are partially funded by employee contributions of regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983, 8% for those hired from January 1, 1984 through June 30, 1996 and 9% for those hired on or after July 1, 1996, plus an additional 2% of compensation above \$30,000 per year for all those members hired on or after January 1, 1979. Employee contributions are 12% of compensation for members of the state police hired after July 1, 1996. Legislation enacted in fiscal 2000 establishing an alternative superannuation retirement benefit program for members of the MTRS and teachers of the State-Boston retirement system mandates that active members who opt for the alternative program and all teachers hired on or after July 1, 2001 contribute 11% of regular compensation. Members who elect to participate are required to make a minimum of five years of retirement contributions at the 11% rate.

Unfunded Actuarial Accrued Liability. The retirement systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1988, the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Under current law such unfunded liability is required to be amortized to zero by June 30, 2025.

The Secretary of Administration and Finance is required by law to prepare a funding schedule providing for both the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and the amortization by June 30, 2025, of the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated periodically on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. Funding schedules are to be filed with the Legislature triennially by

January 15 and are subject to legislative approval. If a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule at a level at least equal to the prior year's payments.

The schedule of pension funding progress for the MSERS and MTRS for the years 2004 to 2009 was included in the last Comprehensive Annual Financial Report for fiscal 2009 issued by the Office of the State Comptroller.

The most recent funding schedule was adopted in March, 2009.

Approved Funding Schedule for Pension Obligations (in thousands)

<u>Fiscal Year</u>	<u>Payments</u>	<u>Fiscal Year</u>	<u>Payments</u>
2009	\$1,314,396	2018	\$1,994,216
2010	1,376,619	2019	2,088,934
2011	1,441,811	2020	2,188,189
2012	1,510,115	2021	2,292,199
2013	1,581,681	2022	2,401,195
2014	1,656,666	2023	2,515,416
2015	1,735,235	2024	2,635,117
2016	1,817,561	2025	2,760,563
2017	1,903,824		

SOURCE: Executive Office for Administration and Finance.

On September 21, 2009, pursuant to Chapter 32 of the Massachusetts General Laws, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the total pension obligation as of January 1, 2009. This valuation was based on the plan provisions in effect at the time and is based on member data and asset information as of December 31, 2008.

The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$22.080 billion, including approximately \$6.730 billion for the State Employees' Retirement System, \$13.620 billion for the Massachusetts Teachers' Retirement System, \$1.410 billion for Boston Teachers and \$325 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2009 to be approximately \$59.140 billion (comprised of \$23.720 billion for state employees, \$32.540 billion for state teachers, \$2.550 billion for Boston Teachers and \$325 million for cost-of-living increases reimbursable to local systems). Total assets were valued at approximately \$37.060 billion based on a five-year average valuation method, which equaled 110% of the January 1, 2009 total asset market value. The valuation method was the same as the method used in the 2008 valuation.

The principal assumptions used in the valuation were an investment return assumption of 8.25% and a salary increase assumption based on Group and years of service. The ultimate salary increase rate is 4.5% for Groups 1 and 2, 5.0% for Groups 3 and 4, and 4.75% for teachers. The assumption is higher in early years of employment and grades down to the ultimate rate. All assumptions other than the investment return assumption are based on PERAC's most recent Experience Study Analysis for the State Retirement System, published in 2007 and the Massachusetts Teachers' Retirement System, published in 2008. The unfunded liability is amortized on a 4.5% annual increasing basis until fiscal 2025.

The Actuarial Cost Method which was used to determine pension liabilities in this valuation is known as the Entry Age Normal Cost Method. Under this method, the Normal Cost for each active member on the valuation date is determined as the level percent of salary, which, if paid annually from the date the employee first became a retirement system member, would fully fund by retirement, death, disability or termination, the projected benefits which the member is expected to receive. The Actuarial Liability for each member is determined as the present value as of the valuation date of all projected benefits which the member is expected to receive, minus the present value of future annual Normal Cost payments expected to be made to the fund. Since only active members have a Normal Cost, the Actuarial Liability for inactive, retirees, and survivors is simply equal to the present value of all projected benefits. The Unfunded Actuarial Liability is the Actuarial Liability less current assets.

The Normal Cost for a member will remain a level percent of salary for each year of membership, except for changes in provisions of the plan or the actuarial assumptions employed in projection of benefits and present value determinations. The Normal Cost for the entire system will also be changed by the addition of new members

or the retirement, death, disability, or termination of members. The Actuarial Liability for a member will increase each year to reflect the additional accrual of Normal Cost. It will also change if the plan provisions or actuarial assumptions change.

Differences each year between the actual experience of the plan and the experience projected by the actuarial assumptions are reflected by adjustments to the Unfunded Actuarial Liability. An experience difference which increases the Unfunded Actuarial Liability is an Actuarial Loss and one which decreases the Unfunded Actuarial Liability is an Actuarial Gain.

The Actuarial Value of Assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior are recognized, etc., so that 100% of gains and losses occurring five years ago are recognized. This has the effect of smoothing the short-term volatility of market values over a five-year period. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value. In valuations prior to 1998, plan assets were determined at market value. As part of the 1998 valuation, this methodology was adjusted to reduce the potential volatility in the market value approach from year to year. The actuarial value of assets as of January 1, 2009 is 110% of the market value.

The following table shows the valuation of accrued liabilities and assets from 2005 through 2009:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

<u>Valuation Date</u>	<u>Total Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets(1)</u>	<u>Unfunded Accrued Liabilities</u>	
			<u>Unfunded Actuarial Liability(2)</u>	<u>Market Value of Unfunded Liability</u>
January 1, 2005	\$48,358	\$34,939	\$13,419	\$12,861
January 1, 2006	50,865	36,377	14,488	11,844
January 1, 2007	53,761	40,412	13,349	8,859
January 1, 2008	56,637	44,532	12,105	7,402
January 1, 2009	59,142	37,058	22,084	25,453

SOURCE: Public Employee Retirement Administration Commission.

(1) Based on five-year average smoothing methodology.

(2) Based on actuarial valuation.

The Governor's fiscal 2011 budget proposal maintains the January 1, 2009 pension schedule by recommending a transfer of \$1.442 billion, an increase of \$65 million over fiscal 2010. The Commonwealth revises its funding schedule every three years. Recognizing the impact that the loss of assets will have on the pension fund and future funding schedules, the Governor has instructed the Secretary of Administration and Finance to form a task force to begin developing strategies and recommendations for a new triennial schedule to be adopted for fiscal 2012.

On January 27, 2010, the Governor filed legislation proposing pension reforms in addition to those adopted by the passage of pension reform legislation in June, 2009. The additional reforms include eliminating abuses, improving fairness and updating the system to reflect changes in work patterns. Such reforms are expected by the Governor to generate an estimated savings of over \$2 billion over 30 years.

Other Post-Retirement Benefit Obligations (OPEB). In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care / benefit costs which are comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Group Insurance Commission (GIC) of the Commonwealth manages the Commonwealth's defined benefit OPEB plan as an agent multiple employer program including the Commonwealth and 370 municipalities and other non-Commonwealth governmental entities. These entities that participate in the GIC are responsible for paying premiums at the same rate to the GIC and therefore benefit from the Commonwealth's premium rates. The

GIC has representation on the Trustees of the State Retiree Benefits Trust Fund (SRBTF). The SRBTF is set up solely to pay for OPEB benefits and the cost to administer those benefits and can only be dissolved when all such health care and other non-pension benefits, current and future have been paid or defeased. GIC administers benefit payments, while the Trustees are responsible for investment decisions.

Employer and employee contribution rates are set by statute. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2009, Commonwealth participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. As of July 1, 2009, all active employees were required to pay an additional 5% of premium costs. There were approximately 142,635 participants eligible to receive benefits as of June 30, 2009.

Accounting standards promulgated in 2004 by the Governmental Accounting Standards Board (GASB) required the Commonwealth to begin disclosing its liability for other post-employment benefits (commonly referred to as "OPEB") in its fiscal 2008 financial reports.

According to the June, 2009 report, the Commonwealth assumed no pre-funding. The report detailed an actuarial accrued liability for the Commonwealth for OPEB obligations earned through January 1, 2009 at \$15.305 billion. This is a slight drop from the January 1, 2008 number assuming no prefunding of \$15.637 billion. The decline is largely through census changes and per-capita adjustments.

As the Commonwealth is not fully funding the amortization of the actuarial liability, a liability for the difference between the amount funded and the actuarially required contribution is reflected on the Commonwealth's statement of net assets, as presented on a GAAP basis. The liability will increase or decrease each year depending on the amount funded, investment return and changes in amortization and assumptions. This change in liability will be reflected either as a revenue or expense item in the Commonwealth's statement of activities as presented on a GAAP basis, dependent on these factors. As of June 30, 2009, this net OPEB obligation as reflected on the Commonwealth's statement of net assets is \$1.149 billion.

The independent actuarial report covered only the Commonwealth's OPEB obligations for Commonwealth employees and their survivors. Municipalities and authorities of the Commonwealth, even if their health care coverage is administered by the Group Insurance Commission, will perform their own valuations, as the Commonwealth acts only as an agent for these entities with respect to OPEB and does not assume the risk or financial burden of their health care costs.

The difference between the value of pre-funded and non-pre-funded OPEB liabilities is due to the discount rate used in the calculation. In the absence of pre-funding, the discount rate must approximate the Commonwealth's rate of return on non-pension (liquid) investments over the long term, currently estimated at 4.5% for the purpose of this study. The 4.5% reflects the long-term rate of return (since inception) of the Massachusetts Municipal Depository Trust. In order to qualify its OPEB liabilities as pre-funded, the Commonwealth must deposit annual contributions in a qualifying trust in accordance with the requirements of GASB Statement No. 45 (and similar to the program for funding the Commonwealth's unfunded actuarial liability for pensions).

GASB Statement No. 45 requires that OPEB obligations be recalculated at two-year intervals. Such calculations may be affected by many factors, including changing experience and assumptions regarding future health care claims, by whether or not the Commonwealth enacts legislation that qualifies its OPEB obligations to be calculated on a pre-funded basis, by changes in the Commonwealth's employee profile and possibly by changes in OPEB coverage levels and retiree contribution requirements. Accordingly, it should be anticipated that the actuarial accrued liability of the Commonwealth for OPEB liabilities may fluctuate.

A copy of the June 2009 valuation report discussed above may be viewed at the website of the Comptroller of the Commonwealth at <http://www.mass.gov/osc>. Click on "Financial Reports/Audits." and then "Commonwealth Actuarial Valuations."

The executive and legislative branches have been working to develop a short- and long- term strategy for addressing the Commonwealth's OPEB liability. The State Retiree Benefits Trust Fund was created, and in fiscal 2008 spending for current retirees' healthcare occurred from the fund, helping to consolidate the state's retiree funding efforts and better project future liabilities. In fiscal 2008, the fund benefited from a one-time transfer of approximately \$329 million from the Health Care Security Trust. The actuarial value of plan assets as of January 1, 2009 was approximately \$277 million, reflecting fair market value losses in investments.

A special commission on the Commonwealth's OPEB liability released a report in July, 2008. In its report, the special commission recommends that the Commonwealth develop a strategy to pre-fund the Commonwealth's OPEB liability. The commission identifies three funding sources -- tobacco settlement funds, unanticipated budgetary surpluses and annual legislative appropriations -- and recommends funneling funds from all three sources to the State Retiree Benefits Trust Fund in order to address the unfunded OPEB liability. With regard to tobacco settlement funds, the commission advises a phased-in approach, whereby a specified percentage of the settlement funds (increasing from 25% of such funds in year one to 90% of such funds in year four and thereafter) would be transferred to the State Retiree Benefits Trust Fund. In addition to using the tobacco settlement funds, the commission further recommends that the Commonwealth allocate 50% of any unanticipated surplus funds in a budget surplus year to the fund. Finally, the commission recommends that annual appropriations to the fund be included in each annual budget so as to eliminate the unfunded liability by 2038.

The fiscal 2009 and 2010 budgets did not include any of the special commission's recommendations for addressing the Commonwealth's OPEB liability. The Governor, House and Senate did include a provision in their respective fiscal 2011 budget recommendations that would deposit, on an annual basis, 5% of any capital gains tax revenues in excess of \$1 billion to the State Retiree Benefits Trust fund.

Education

Executive Office of Education. In fiscal 2008, enacted reorganization legislation created an Executive Office of Education encompassing the Department of Early Education and Care, the Department of Elementary and Secondary Education (previously the Department of Education), the Department of Higher Education (previously the Board of Higher Education) and the University of Massachusetts system. The office is, committed to advancing actions and initiatives that will improve achievement for all students, close persistent achievement gaps, and to create a 21st century public education system that prepares students for higher education, work and life in a world economy and global society.

Department of Elementary and Secondary Education. The Department of Elementary and Secondary Education serves the student population from kindergarten through twelfth grade by providing support for students, educators, schools and districts and by providing state leadership. The Department of Elementary and Secondary Education is governed by the Executive Office of Education and by the Board of Education, which will now include 13 members. There are 328 school districts in the Commonwealth, serving over 950,000 students.

Department of Higher Education. The Commonwealth's system of higher education includes the five-campus University of Massachusetts, nine state colleges and 15 community colleges. The higher education system is coordinated by the Department of Higher Education which has a governing board, the Board of Higher Education, and each institution of higher education is governed by a separate board of trustees. The Board of Higher Education nominates, and the Secretary of Education appoints, a Commissioner of Higher Education, who is responsible for carrying out the policies established by the board at the Department of Higher Education.

The operating revenues of each institution consist primarily of state appropriations and of student fees that are set by the board of trustees of each institution. Tuition levels are set by the Board of Higher Education. State-supported tuition revenue is required to be remitted to the State Treasurer by each institution; however, the Massachusetts College of Art and Design and the Massachusetts Maritime Academy have the authority to retain tuition indefinitely. The board of trustees of each institution submits annually audited financial statements to the Comptroller and the Board of Higher Education. The Department of Higher Education prepares annual operating budget requests on behalf of all institutions, which are submitted to the Executive Office of Education and subsequently to the Executive Office for Administration and Finance and to the House and Senate Committees on Ways and Means. The Legislature appropriates funds for the higher education system in the Commonwealth's annual operating budget in various line items for each institution.

Department of Early Education and Care. The Department of Early Education and Care provides support to children and families seeking a foundational education. Additionally, the Department strives to educate current and prospective early education and care providers in a variety of instructive aspects. Included within the Department's programs and services are supportive child care, TANF-related child care, low-income child care, Head Start grants, universal pre-kindergarten, quality enhancement programs, professional development programs, mental health programs, healthy families programs and family support and engagement programs. Two of these programs, the supportive and TANF-related child care, help children receiving or referred services by the Department of Social Services or the Department of Transitional Assistance.

Public Safety

Twelve state agencies fall under the umbrella of the Executive Office of Public Safety and Security. The largest is the Department of Correction, which operates 18 correctional facilities and centers across the Commonwealth. Other public safety agencies include the State Police, Parole Board, the Department of Fire Services, the Military Division, the Office of the Chief Medical Examiner and six other public safety related agencies.

In addition to expenditures for these twelve state public safety agencies, the Commonwealth provides funding for the departments of the 14 independently elected Sheriffs that operate 23 jails and correctional facilities. In fiscal 2010, through enactment of chapter 61 of the Acts of 2009, as later amended by Chapter 102 of the Acts of 2009, all 14 Massachusetts state and county sheriffs were aligned under the state budgeting and finance laws. Prior to the transfer, the Commonwealth had seven sheriffs operating as state agencies under the state accounting and budgeting system and seven sheriffs operating as county entities. The sheriff departments have successfully transitioned onto the state budgeting and accounting system, and all sheriff employees have been placed on the state payroll. Appropriations have been established to support sheriff department operations for the balance of this fiscal year. Thus, all 14 sheriff departments are now functioning as independent state agencies within the Executive Branch.

Energy and Environmental Affairs

In fiscal 2008, the Executive Office of Environmental Affairs was reorganized into the Executive Office of Energy and Environmental Affairs. This reorganization included the transfer of the Department of Energy Resources and Department of Public Utilities from the Executive Office of Economic Development to the new secretariat. The Executive Office of Energy and Environmental Affairs is responsible for policy development, environmental law enforcements services and oversight of agencies and programs. Six state agencies and numerous boards fall under the umbrella of the Executive Office of Energy and Environmental Affairs. The largest is the Department of Conservation and Recreation, which operates over 600,000 acres of public parkland, recreational facilities, watersheds and forests across the Commonwealth. Other environmental agencies include the Department of Agricultural Resources, responsible for the state's agricultural and food safety programs, the Department of Environmental Protection, responsible for clean air, water, recycling and environmental remediation programs, and the Department of Fish and Game, responsible for the management and protection of endangered species, fisheries and habitat. Additional agencies include the Department of Public Utilities, responsible for oversight of electric, gas, water and transportation utilities and the Department of Energy Resources, responsible for energy planning, management and oversight.

Debt Service

Debt service expenditures relate to general obligation bonds and notes, special obligation bonds and federal grant anticipation notes issued by the Commonwealth. See "LONG-TERM LIABILITIES."

Other Program Expenditures

The remaining expenditures on other programs and services for state government include the judiciary district attorneys, the Attorney General, the Executive Office for Administration and Finance, the Executive Office for Housing and Economic Development, the Executive Office of Labor and Workforce Development and various other programs.

STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of the last four fiscal years and as of December 31, 2009.

State Workforce					
	<u>June 2006</u>	<u>June 2007</u>	<u>June 2008</u>	<u>June 2009</u>	<u>December 2009</u>
Executive Office	58	79	81	72	68
Office of the Comptroller	122	124	124	115	113
Executive Departments					
Administration and Finance (2)	2,990	2,791	2,904	2,861	2,821
Energy and Environmental Affairs (1)	2,057	2,168	2,236	2,208	2,086
Housing and Community Development (1)	91	-	-	-	-
Early Education and Care (3)	164	189	-	-	-
Health and Human Services	21,022	21,072	21,449	20,895	20,223
Transportation and Public Works (4)	1,078	1,087	1,245	1,200	-
Board of Library Commissioners	12	13	13	13	11
Economic Development (1)	960	-	-	-	-
Housing and Economic Development (1)	-	610	650	616	704
Labor and Workforce Development (1)	-	320	307	316	300
Executive Office of Education (3)	-	-	562	570	340
Department of Education (3)	266	269	-	-	-
Board of Higher Education (3)	60	55	-	-	-
Public Safety and Security	8,430	8,457	8,627	8,483	8,408
Elder Affairs	<u>34</u>	<u>44</u>	<u>47</u>	<u>50</u>	<u>41</u>
Subtotal under Governor's Authority	37,343	37,278	38,244	37,398	35,115
Judiciary	7,630	7,993	8,021	7,821	7,516
Higher Education	12,872	13,265	13,219	13,409	11,999
Other (5)	<u>7,394</u>	<u>7,947</u>	<u>8,245</u>	<u>8,044</u>	<u>7,771</u>
Subtotal funded by the Operating Budget	<u>65,239</u>	<u>66,483</u>	<u>67,729</u>	<u>66,672</u>	<u>62,401</u>
Federal Grant, Trust and Capital Funded	<u>15,598</u>	<u>15,727</u>	<u>15,934</u>	<u>16,381</u>	<u>20,896</u>
Total	<u>80,837</u>	<u>82,210</u>	<u>83,663</u>	<u>83,053</u>	<u>83,297</u>

SOURCE: Executive Office for Administration and Finance.

(1) Effective April 11, 2007, the Executive Office of Economic Development was divided into the Executive Office of Housing and Economic Development, incorporating the former Department of Housing and Community Development, and the Executive Office of Labor and Workforce Development. The Department of Public Utilities and the Department of Energy Resources were transferred to the renamed Executive Office of Energy and Environmental Affairs from the Executive Office of Economic Development, a net shift of 100 FTEs.

(2) Effective April 10, 2007, the Massachusetts Commission Against Discrimination became an independent agency, separating from the Executive Office for Administration and Finance, a new shift of 61 FTEs.

(3) Effective March 10, 2008, the Department of Early Education and Care, Department of Education and Board of Higher Education were consolidated under the Executive Office of Education.

(4) Effective November 1, 2009, the Executive Office of Transportation and Public Works, which included the Massachusetts Highway Department, Registry of Motor Vehicles and Massachusetts Aeronautics Commission, was abolished and in its place was established the Massachusetts Department of Transportation. A net shift of 1,269 occurred as these employees were transferred to the Massachusetts Department of Transportation's non-appropriated fund, the Massachusetts Transportation Trust Fund.

(5) Other includes members of the Legislature and their staff, the offices of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor.

Unions and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees and employees of the Legislature, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all employees of the Commonwealth (except those noted below). Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Human Resources Division are subject to approval by the Secretary of Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Labor contracts are often funded by supplemental appropriations.

The Trial Court, the Lottery Commission, state sheriffs, the Registries of Deeds under the control of the Secretary of the Commonwealth, public higher education management and the PCA Council negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in such agreements are subject to the review of the Governor and to funding approval by the Legislature. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 39,370 executive branch full-time-equivalent state employees are organized in 12 bargaining units, the employees of the Commonwealth's colleges and universities are organized in 28 bargaining units, and the employees of the judicial branch, the Lottery Commission, the Registries of Deeds, state sheriffs and the PCAs are organized in 30 bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services. Negotiations are actively underway with the New England Police Benevolent Association to replace their contract which expired June 30, 2008; the Massachusetts Nurses Association and the State Police Association of Massachusetts to replace their contracts which expired December 31, 2008; the Massachusetts Correction Officer Federated Union (MCOFU), whose contract expired on June 30, 2009; and the Coalition of Public Safety (COPS), whose contract also expired on June 30, 2009.

The following is a description of certain terms of the most recent agreements with the collective bargaining units within the responsibility of the Human Resources Division. Negotiations are underway with the units that have expired contracts.

(1) The National Association of Government Employees, representing Units 1, 3 and 6, has a three-year contract from July, 2009 to June, 2012 that provides increases of 1%, 3% and 3% in June 2010, 2011 and 2012, respectively. The contract has received legislative approval. The total estimated cost of the contract is \$21.5 million.

(2) The contract with the Service Employees International Union, representing employees in units 8 and 10 runs from January 1, 2009 through December 31, 2011 and provides salary increases of 1, 3 and 3% in December 2009, 2010 and 2011, respectively. The total estimated cost of the contract is \$33.2 million.

(3) The contract with the Alliance Unit 2 (American Federation of State, Country and Municipal Employees) runs from July 2009 through June 2012 and provides increases of 1, 3 and 3% in June 2010, 2011 and 2012, respectively. The total estimated cost of the contract is \$15.2 million.

(4) The contract with the Massachusetts Organization of State Engineers and Scientists runs from July 2009 through June 2012 and provides increase of 1, 3 and 3% in June 2010, 2011 and 2012, respectively. The total estimated cost of the contract is \$3.9 million.

(5) The contract with the New England Police Benevolent Association, representing Unit 4A, expired June 30, 2008.

(6) The contract with the Massachusetts Nurses Association expired December 31, 2008.

(7) The contract with the State Police Association of Massachusetts expired December 31, 2008.

(8) The contract with the Massachusetts Correction Officers Federated Union expired on June 30, 2009.

(9) The contract with the Coalition of Public Safety expired June 30, 2009.

The following table sets forth information regarding the 12 bargaining units that are within the responsibility of the Human Resources Division.

Human Resources Division Bargaining Units(1)

Contract Unit	Bargaining Union	Type of Employee	FTEs	Contract Expiration Dates
1	National Association of Government Employees	Clerical	2,929	6/30/12
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	9,018	6/30/12
3	National Association of Government Employees	Skilled trades	616	6/30/12 ³
4	Massachusetts Correction Officers Federated Union	Corrections	3,913	6/30/09
4A	Corrections Captains	Corrections	80	6/30/08
5	Coalition of Public Safety	Law enforcement	184	6/30/09
5A	State Police Association of Massachusetts	State Police	1,810	12/31/08
6	National Association of Government Employees	Administrative professionals	8,511	6/30/12
7	Massachusetts Nurses Association	Health professionals	1,594	12/31/08
8	Alliance/Service Employees International Union	Social workers	7,088	12/31/11
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	3,043	6/30/12
10	Alliance/Service Employees International Union	Secondary education	<u>582</u>	12/31/11
		Total	39,370	

SOURCE: Executive Office for Administration and Finance.

(1) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of June 1, 2010 whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants and expendable trusts and other non-appropriated funds).

SELECTED FINANCIAL DATA

Stabilization Fund

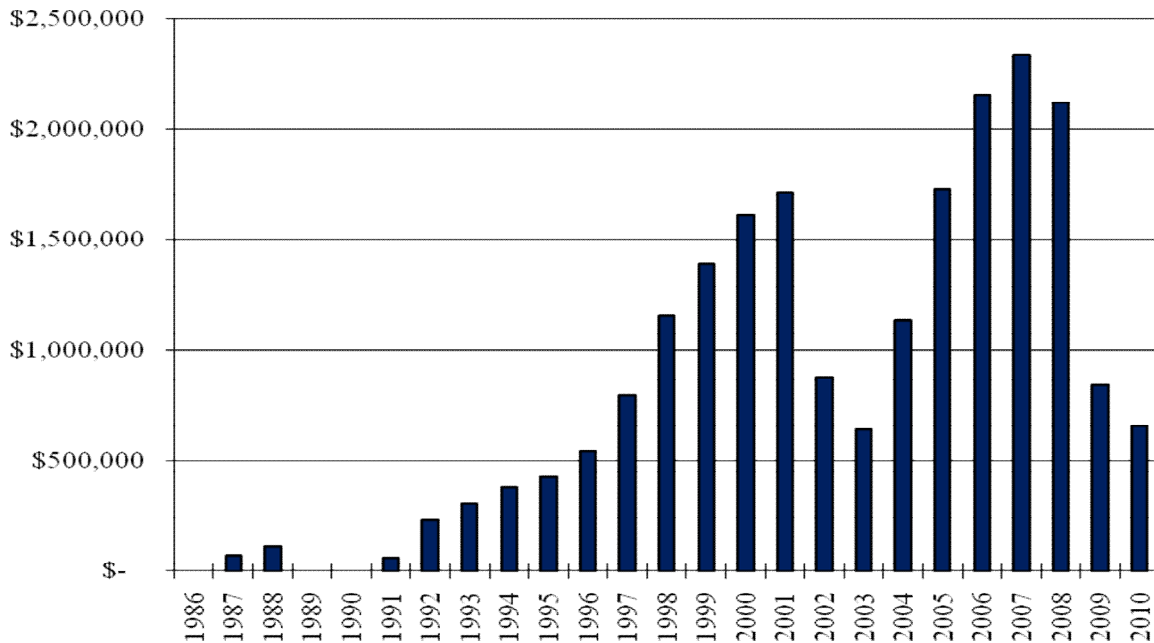
The Stabilization Fund is established by state finance law as a reserve of surplus revenues to be used for the purposes of covering revenue shortfalls, covering state or local losses of federal funds or for any event which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. The fund is sometimes referred to as the state's "rainy day fund," serving as a source of financial support for the state budget in times of slow or declining revenue growth and as the primary source of protection against having to make drastic cuts in state services in periods of economic downturns.

Required Deposits and Allowable Stabilization Fund Balance. Beginning July 1, 2004, state finance law has provided that (i) 0.5% of the net tax revenues from each fiscal year must be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5% of current-year net tax revenues must be made available for the next fiscal year before the year-end surplus is calculated and (iii) any remaining amount of the year-end surplus must be transferred to the Stabilization Fund. Prior to fiscal 2004, the allowable Stabilization Fund balance at fiscal year-end could not exceed 10% of the total revenues for that year. Since fiscal 2004, the allowable Stabilization Fund balance has been 15% of total current-year revenues. If the Stabilization Fund balance exceeds the allowable limit, the excess amounts are to be transferred to the Tax Reduction Fund.

The fiscal 2010 budget authorizes the transfer of \$199 million from the Stabilization Fund to the General Fund and the transfer of all fiscal 2010 interest earnings. The Executive Office for Administration and Finance currently anticipates utilizing \$149 million of the \$199 million authorization. The budget also suspends the statutorily required deposit for fiscal 2010. Supplemental budget legislation signed into law on November 24, 2009 authorized an additional transfer of \$35.8 million from the Stabilization Fund to the General Fund. The Governor's budget recommendations for fiscal 2011 propose to suspend the statutorily required deposit and transfer \$146 million from the Stabilization Fund to the General Fund. Neither the House nor the Senate rely on a withdrawal from the Stabilization Fund as part of their respective versions of the fiscal 2011 budget.

The following chart shows the Stabilization Fund balance from fiscal 1986 through fiscal 2009 and current balance for fiscal 2010.

Stabilization Fund Balance (in thousands)



SOURCE: Office of the Comptroller.

The following table shows the sources and uses of the Stabilization Fund during fiscal 2004 through fiscal 2009:

Stabilization Fund Sources and Uses (in thousands)

	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>
Beginning fund balances	\$1,137,320	\$1,728,355	\$2,154,664	\$2,335,021	\$2,119,194
<u>Revenues and Other Sources</u>					
Consolidated net surplus	776,959	353,990	90,883	-	64,747
Lottery transfer taxes	3,996	4,204	2,680	2,243	2,436
CA/T project cost recoveries	90	-	-	-	-
Investment income	17,270	68,115	86,794	96,930	43,967
Transfers due to fund consolidation	-	-	-	-	-
Excess permissible tax revenue	135,991	20,000	-	-	-
Transfer from Transitional Escrow Fund	-	-	-	-	-
Total Revenues and Other Sources	<u>934,306</u>	<u>446,309</u>	<u>180,357</u>	<u>99,173</u>	<u>111,150</u>
Total Expenditures and Other Uses	<u>343,271</u>	<u>20,000</u>	<u>-</u>	<u>315,000</u>	<u>1,389,000</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>591,035</u>	<u>426,309</u>	<u>180,357</u>	<u>(215,827)</u>	<u>(1,227,850)</u>
Ending fund balances	<u>\$1,728,355</u>	<u>\$2,154,664</u>	<u>\$2,335,021</u>	<u>\$2,119,194</u>	<u>\$841,344</u>
Allowable Stabilization Fund Balance	<u>\$3,656,015</u>	<u>\$3,945,820</u>	<u>\$4,292,382</u>	<u>\$4,546,976</u>	<u>\$4,382,687</u>

SOURCE: Office of the Comptroller.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2009, incorporated herein by reference as Exhibit C, are prepared in accordance with reporting standards first established by GASB Statements 34 and 35, as amended. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Fiscal Control, Accounting and Reporting Practices of Comptroller." The GAAP financial statements present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive statement of net assets. All fixed assets, including road and bridge infrastructure and all long-term liabilities, including outstanding debt and commitments of long-term assistance to municipalities and authorities, are part of the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances are presented as a statement of activities.

The table below presents the transition from the Commonwealth's statutory basis budgetary fund balance to the "fund perspective" balance, as depicted in the fund financial statements, and then to the Commonwealth's "entity-wide" governmental financial position. Differences between statutory and GAAP basis can be summarized in five major adjustments. Those adjustments are for Medicaid (as well as the somewhat related liability for uncompensated care), taxes, projected amounts due to the Commonwealth in the next fiscal year under the master tobacco settlement agreement, claims and judgments and amounts due to authorities. As evidenced in the trend line of fund balance (deficit) over time, however, these adjustments connect the GAAP basis measurement when viewed using a fund perspective under GAAP and the statutory basis measurement. While the difference in fund balances may vary in a given fiscal year, both balances generally trend in the same direction. To convert to a full accrual basis, major adjustments are made for the net book value of the Commonwealth's assets, inclusive of infrastructure, the realizable value of long-term deferred revenues (largely from tax payment plans) and the amount of the Commonwealth's outstanding long-term debt and other liabilities.

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Governmental Funds – Statutory to GAAP – Fund Perspective and to Governmental Net Assets (in millions)

Governmental Funds – Statutory Basis, June 30, 2009:

Budgeted Fund Balance	\$1,016.6
Non-Budgeted Special Revenue Fund Balance	1,418
Capital Project Fund Balance	<u>34</u>

Governmental Fund Balance – Statutory Basis, June 30, 2008 **\$2,469.0**

Plus:

Expendable Trust and Similar Statutory Balances that are considered	
Governmental Funds for GAAP Reporting Purposes	353
Owner Controlled Insurance Program Net Assets	52
Trust fund reclassified as Permanent trust fund	5.0

Adjusted Statutory Governmental Fund Balance – June 30, 2008 **\$2,879.8**

Accruals, net of allowances and deferrals for increases / (decreases):

Taxes, net of refunds and abatements	\$ 1,475.8
Tobacco Settlement Agreement Receivable	146.3
Medicaid	(308.8)
Assessments and other receivables	178.2
Amounts due to authorities and municipalities, net	(352.0)
Claims, judgments and other risks	(20.0)
Amounts due to health care providers and insurers	(120.8)
Workers' compensation and group insurance	(107.5)
Other accruals, net	(105.2)

Net Increase to governmental fund balances **786.0**

Massachusetts School Building Authority fund balance 1,395.5

Total changes to governmental funds **2,181.5**

Governmental Fund Balance (fund perspective) **\$5,061.3**

Plus: Capital assets including infrastructure, net of accumulated depreciation	18,993.7
Plus: Deferred inflows of resources	746.4
Less: Pension cumulative over/(under) funding	(565.0)
Less: Post employment benefits other than pensions over/(under) funding	(1,149.0)
Less: Environmental Remediation Liability	(177.8)
Less: School construction grants payable	(7,337.3)
Less: CA/T Project assets to be transferred to Turnpike Authority	(7,052.5)
Less: Long Term debt, unamortized premiums and deferred losses on refundings	(19,437.0)
Less: Compensated Absences	(481.2)
Less: Capital Leases	(109.8)
Less: Accrued Interest on Bonds	(299.1)
Less: Other Long term Liabilities	<u>(350.5)</u>

Total Governmental Net Assets (entity-wide perspective) **\$(12,153.7)**

SOURCE: Office of the Comptroller

The liabilities of the Commonwealth exceeded its assets at the end of fiscal 2008 by over \$8.2 billion, a reduction of over \$3.5 billion during the fiscal year. Of the \$8.2 billion deficit amount, “unrestricted net assets” is reported as a negative \$12.3 billion, offset by over \$2.2 billion in “restricted net assets.” There are two primary reasons for negative unrestricted net assets. The Central Artery/Ted Williams Tunnel is owned by the Massachusetts Department of Transportation and the Massachusetts Port Authority, however the Commonwealth paid for the construction of these assets and retains a large amount of related debt. Similarly, the Commonwealth has a liability of \$4.0 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority. During the fiscal year, net asset balances of over \$1.0 billion were set aside for unemployment benefits and \$573 million for debt retirement.

Revenues – GAAP Basis. The measurement of revenues for the budgeted operating funds from a statutory basis differs from governmental revenues on a GAAP basis in that certain funds that are not governmental for statutory purposes are included on a GAAP basis, including revenue accruals for Medicaid and taxes, which are included on a GAAP basis but not on a statutory basis. In addition, internal transfers are eliminated under GAAP from an entity-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2009:

Comparison of Fiscal 2009 Governmental Revenues (in millions)

	<u>Governmental Funds</u>	<u>GAAP Basis – Governmental</u>	<u>Entity-wide</u>
	<u>Statutory Basis</u>	<u>Fund Perspective</u>	<u>Perspective</u>
Taxes	\$18,513	\$18,354	\$18,499
Federal Revenue	11,785	12,902	12,912
Departmental and Miscellaneous Revenue	<u>17,454</u>	<u>18,352</u>	<u>8,950</u>
Total	<u>\$47,752</u>	<u>\$49,788</u>	<u>\$40,361</u>

SOURCE: Office of the Comptroller

The following table provides financial results on a GAAP basis for all governmental operating funds of the Commonwealth for fiscal 2005 through fiscal 2009.

Governmental Fund Operations – GAAP Basis – Fund Perspective (in millions)

	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>
Beginning fund balances	\$4,424.4	\$5,048.6	\$7,263.2	\$7,735.9	\$7,062.7
Restatement due to fund reclassification	-	-	5.0	-	-
Revenues and Financing Sources	43,532.6	47,189.9	49,402.2	50,136.8	49,787.9
Expenditures and Financing Uses	42,908.4	44,975.3	48,934.5	50,810.0	51,789.3
Excess (deficit)	<u>624.2</u>	<u>2,214.6</u>	<u>472.7</u>	<u>(673.2)</u>	<u>(2,001.4)</u>
Ending fund balances—GAAP fund perspective	<u>\$5,048.6</u>	<u>\$7,263.2</u>	<u>\$7,735.9</u>	<u>\$7,062.7</u>	<u>\$5,061.3</u>

SOURCE: Office of the Comptroller

Financial Reports. The Commonwealth issues audited annual reports, including audited financial statements on both the statutory basis of accounting and the GAAP basis. These financial statements are issued as two separate reports, the SBFR and the CAFR. The SBFR is published by the Comptroller by October 31 and the CAFR is published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2009 and the CAFR for the year ended June 30, 2009 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2009 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." The SBFR for fiscal 1997 through fiscal 2009 and the CAFR for fiscal 1994 through fiscal 2009 are also available on the web site of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on "Financial Reports/Audits."

The Comptroller retains an independent certified public accounting firm to audit the Commonwealth's financial statements and issue certain other reports required by the single audit. As part of the single audit, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems.

For each year beginning in fiscal 1991, the Commonwealth CAFRs, from which certain information contained in this Information Statement has been derived, have been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 2009 marked the eighteenth consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2008 has been submitted to the GFOA for the award.

Discussion of Financial Condition

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of Comptroller; *Financial Reports*.” The SBFR for the year ended June 30, 2009 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2009 is included herein by reference as Exhibit C. Without limiting the generality of the references to the SBFR and CAFR for the year ended June 30, 2009, attention is called in particular to the portion of the CAFR under the heading “Management’s Discussion and Analysis.”

Auditor’s Report on Fiscal 2009 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2009 were audited by KPMG LLP (KPMG). The KPMG audit report dated December 23, 2009 on the general purpose financial statements included in the CAFR for the year ended June 30, 2009 contained an unqualified opinion. A copy of the audit report of KPMG dated December 23, 2009 has been filed with EMMA and is incorporated by reference in Exhibit C to this Information Statement and in each statement in this Information Statement referred to the Commonwealth CAFR for the year ended June 30, 2009. KPMG has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

FISCAL 2010 AND FISCAL 2011

Fiscal 2009 Ending Balance

As of June 30, 2009, the Commonwealth ended fiscal 2009 with an undesignated budgetary fund balance of \$74.7 million, net of a 0.5% tax revenue carry-forward into fiscal 2010 of \$92.6 million. The \$74.7 million is commonly known as “consolidated net surplus.” Of the \$74.7 million surplus, \$10 million was transferred to the Massachusetts Life Sciences Investment Fund, with the remaining \$64.7 million transferred to the Stabilization Fund.

For fiscal 2009, the Commonwealth’s audited financial statements report a year-end balance in the Stabilization Fund of \$841.3 million. The year closed with additional reserve fund balances of \$68.8 million, \$10 million of which represents the amount dedicated to the Massachusetts Life Sciences Investment Fund mentioned above. The total ending fund balance in the budgeted operating funds was \$1.017 billion.

Fiscal 2010

The fiscal 2010 general appropriations act, including vetoes, totaled \$27.046 billion. The budget as enacted by the Legislature was based on a fiscal 2010 tax revenue estimate of \$18.879 billion. The \$18.879 billion estimate reflects the fiscal 2010 consensus tax estimate of \$17.989 billion adjusted for the impact of tax law changes enacted as part of the fiscal 2010 budget. See “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes” This estimate was initially revised downward by \$600 million to \$18.279 on October 15, 2009 and was subsequently revised to \$18.460 billion on January 7, 2010. See “COMMONWEALTH REVENUES AND EXPENDITURES - Tax Revenue Forecasting”

To cover the projected \$600 million tax revenue shortfall reflected in the original revised tax estimate as well as additional supplemental appropriations (see below for a discussion on fiscal 2010 supplemental legislation) the Governor announced approximately \$277 million in spending reductions in October, 2009, pursuant to Section 9C, across executive branch agencies. These cuts were reduced, in part, as a result of the second revision to the tax revenue estimate, and assume \$228 million in 9C reductions. Other solutions to the reduction in the consensus revenue estimate included the use of \$80 million in Stabilization Fund reserves, \$126 million in anticipated departmental and other revenues, as well as \$62 million in available federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA). Based on the updated guidance provided by the federal government that indicated that the state would be eligible for nearly \$80 million in additional federal Medicaid reimbursements in fiscal 2010 related to the state's Medicare "clawback" payments, the Secretary of Administration of Finance instructed the Comptroller to transfer \$80 million from the General Fund back to the Stabilization Fund.

In March, 2010, the Executive Office for Administration and Finance announced that it had identified \$195 million (gross) of additional non-tax revenue and cost exposures in fiscal 2010 that were not previously anticipated. A portion of the deficiency is being reimbursed by the federal government leaving a \$118 million deficiency that needed to be closed using state resources. To address these deficiencies the Governor proposed \$38 million of line item spending reductions and a transfer of \$50 million in surplus funds from the Commonwealth Transportation Fund to support certain transportation spending. These measures were signed into law as part of the supplemental budget legislation approved by the Governor on April 28, 2010. In addition the Secretary of Administration and Finance directed the Comptroller to transfer \$30 million of the \$80 million of clawback payments described in the paragraph above from the Stabilization Fund to the General Fund.

To date the Governor has signed fiscal 2010 supplemental legislation totaling \$507.6 million. The majority of additional funding is necessary to support state safety net programs and services affected by increased caseloads and utilization as a result of the economic downturn, such as the MassHealth program (see "COMMONWEALTH REVENUES AND EXPENDITURES – Medicaid and the Commonwealth Care Trust Fund"), the state program that provides legal representation to indigent persons in criminal and civil court cases and the emergency family shelters program at the Department of Housing and Community Development. There have also been other unanticipated costs, such as special elections and increased funding for snow and ice removal, that have required supplemental funding. The Governor has approved or filed supplemental appropriations to address the bulk of these funding needs. An additional supplemental appropriations bill will be filed later this fiscal year for any remaining funding needs, to the extent necessary.

Fiscal 2011 Budget Proposals

On January 27, 2010, the Governor filed his budget recommendations for fiscal 2011 with the Legislature. The Governor's recommendations are based on the consensus tax revenue estimate for fiscal 2011 of \$19.050 billion (see "Tax Revenue Forecasting"). The Governor's recommendations call for total spending in fiscal 2011 of \$28.212 billion. The projected fiscal 2011 budget shortfall is \$2.75 billion which the Governor recommends solving for through budget reductions, use of federal stimulus, use of state Stabilization Funds and other revenue proposals.

The Governor's fiscal 2011 budget recommendation includes a total of \$1.297 billion in enhanced Federal Medical Assistance Percentage (FMAP), generated throughout fiscal 2011. Under ARRA, the level of enhanced FMAP for each state is dependent on the state's unemployment rates. Massachusetts currently qualifies for tier 3, which is the highest tier for FMAP percentages. The enhanced FMAP through the ARRA legislation extends through December 2010. This approximately \$1.297 billion total includes the amount currently projected for the first half of fiscal 2011 which provides the Commonwealth with a tier 3 level of FMAP reimbursement of 61.59% or approximately \$690 million. In addition, it reflects the anticipated success in securing the expected enactment of a six-month extension of enhanced federal matching relief as part of pending federal legislation. This approach is consistent with projections included in fiscal 2010 budget recommendations while ARRA was pending. The Governor's budget recommendations assume a tier 2 level of reimbursement of 60.2% or approximately \$607 million for the six-month extension portion of enhanced FMAP.

Though both the U.S. House of Representatives and Senate have passed a six-month extension of enhanced FMAP in separate legislative vehicles, and the President has indicated his support of it, Congress has not yet enacted the measure. The Governor, upon filing his fiscal 2011 budget recommendations, indicated that in the event Congress did not enact the six-month extension of enhanced FMAP by June he would revise his original fiscal 2011 budget recommendation to reflect a balanced budget proposal. On June 8, 2010 the Governor submitted such a revision for consideration by the legislative conference committee charged with developing a joint fiscal 2011

budget recommendation. In order to solve for the approximately \$607 million in lost revenue the revision makes proportional reductions across the Governor's original fiscal 2011 budget recommendations with the exception of debt service, the Chapter 70 education aid program and the Unrestricted General Government Aid account.

On April 30, 2010, the House of Representatives approved a budget for fiscal 2011 that was based on the consensus tax revenue estimate for fiscal 2011 of \$19.050 billion. The approved fiscal 2011 budget provides for \$27.823 billion in spending. It does not rely on a withdrawal from the Stabilization Fund but does rely on the \$1.297 billion FMAP.

On May 28, 2010, the Senate released its fiscal 2011 budget, which is based upon the consensus tax revenue estimate for fiscal 2011 of \$19.050 billion. According to the Committee, its budget provides for \$27.926 billion in spending, does not rely on a withdrawal from the Stabilization Fund but does rely on \$1.374 billion FMAP. The Committee's budget assumes a tier 3 level of enhanced FMAP reimbursement for all of fiscal 2011.

The Governor's fiscal 2011 budget recommendations and the House and Senate versions of the budget all include a new mechanism for budgeting for capital gains revenues. As one element of the yearly consensus revenue process, the Governor and the Legislature would agree on a maximum amount of capital gains tax revenues that would be included in the overall consensus revenue estimate. This amount would be based on projections for the fiscal year, as well as principles of prudent budgeting necessary to modulate the impact of this fluctuating revenue source, and subject to a \$1 billion annual maximum. Any capital gains tax revenues in excess of \$1 billion would be transferred to the Stabilization Fund, except for 5% of such excess which would be transferred to the State Retiree Benefits Trust fund to pay for unfunded retiree health insurance liability.

Cash Flow

The State Treasurer is responsible for cash management and ensuring that all Commonwealth financial obligations are met on a timely basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Cash Management Practices of State Treasurer" Cash flow management incorporates the periodic use of short-term borrowing to meet cash flow needs for both capital and operating expenditures. In particular, the Commonwealth makes local aid payments of approximately \$1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in the need for short-term cash flow borrowings. All short-term cash flow borrowings, including both commercial paper and revenue anticipation notes, must be repaid by the end of the fiscal year. The state currently has liquidity support for an \$800 million tax-exempt commercial paper program for general obligation notes, through four \$200 million credit lines. The Commonwealth has relied upon the commercial paper program for additional liquidity since 2002.

On June 3, 2010, the State Treasurer and the Secretary of Administration and Finance released cash flow statements for fiscal 2010 and fiscal 2011. The fiscal 2010 projection shows an overall increase in the non-segregated cash balance from \$805.3 million to \$860.2 million. As is customary, the fiscal 2011 projections are based on the budget recommendations filed by the Governor in January.

The Commonwealth's five-year capital investment plan, which is reviewed annually, calls for approximately \$2.025 billion of bonds to be issued in fiscal 2011. This amount includes \$1.625 billion in general obligation bonds issued under the bond cap and \$760 million of borrowing for the Accelerated Bridge Program (which includes \$360.0 million of borrowing for the program carried over from fiscal 2010, as well as \$400 million in borrowing for fiscal 2011).

The next cash flow statement is expected to be released on or about August 31, 2010.

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Overview of Fiscal 2010 Non-Segregated Operating Cash Flow (in millions) (1)

(as of June 3, 2010)

	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May (2)</u>	<u>June (2)</u>	Total FY 2010 (2)
Opening Non-Segregated Operating Cash Balance	\$ 805.3	\$ 581.8	\$ 837.7	\$ 1,033.1	\$ 703.4	\$ 529.2	\$ 890.1	\$ 1,271.7	\$ 988.4	\$ 891.4	\$ 1,325.2	\$ 1,474.2	\$ 805.3
Operating Activities:													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	199.0	0.0	0.0	0.0	41.2	0.0	0.9	0.4	(49.0)	0.0	0.0	192.5
Total Budgetary Revenue/Inflows	1,929.2	2,426.6	2,838.5	2,274.7	2,123.1	3,070.8	2,927.6	2,225.5	3,216.8	2,937.3	2,631.4	2,523.0	31,124.4
Total Budgetary Expenditures/Outflows	2,300.5	2,252.4	3,042.8	2,300.9	2,115.7	2,931.6	1,954.4	2,237.2	3,295.5	2,206.3	1,840.0	2,729.9	29,207.3
Net Budgetary Funds	(371.4)	174.2	(204.3)	(26.3)	7.4	139.1	973.2	(11.6)	(78.8)	731.0	791.4	(206.8)	1,917.1
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	730.3	605.6	704.6	631.2	765.4	512.7	411.4	663.5	701.2	901.5	685.5	614.5	7,927.4
Total Non Budgetary Expenditures/Outflows	813.8	779.0	1,142.4	719.8	874.6	966.2	857.7	945.0	951.4	797.7	714.5	825.2	10,387.4
Net Non Budgetary Funds	(83.6)	(173.4)	(437.8)	(88.6)	(109.2)	(453.4)	(446.3)	(281.5)	(250.2)	103.7	(29.0)	(210.7)	(2,460.0)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	<u>0.5</u>	<u>3.2</u>	<u>0.7</u>	<u>2.2</u>	<u>1.6</u>	<u>1.5</u>	<u>9.7</u>	<u>1.6</u>	<u>1.6</u>	<u>1.5</u>	<u>1.0</u>	<u>1.0</u>	<u>26.0</u>
Net Operating Activities	\$ (454.4)	\$ 4.0	\$ (641.4)	\$ (112.7)	\$ (100.2)	\$ (312.7)	\$ 536.5	\$ (291.5)	\$ (327.4)	\$ 836.3	\$ 763.4	\$ (416.6)	\$ (516.8)
Federal Grants:													
Total Federal Grants Revenue/Inflows	611.2	174.1	161.3	159.8	209.7	270.4	233.5	87.9	345.9	392.9	243.2	313.3	3,203.3
Total Federal Grants Expenditures/Outflows	<u>195.2</u>	<u>214.6</u>	<u>160.0</u>	<u>169.1</u>	<u>213.3</u>	<u>281.0</u>	<u>206.7</u>	<u>242.0</u>	<u>305.8</u>	<u>282.7</u>	<u>235.9</u>	<u>271.8</u>	<u>2,778.2</u>
Net Federal Grants	\$ 416.0	\$ (40.5)	\$ 1.3	\$ (9.3)	\$ (3.6)	\$ (10.6)	\$ 26.8	\$ (154.1)	\$ 40.1	\$ 110.3	\$ 7.3	\$ 41.5	\$ 425.1
Capital Funds:													
Total Capital Revenue/Inflows	70.0	238.3	172.9	40.1	105.6	798.6	3.5	302.6	206.7	2.1	314.6	328.4	2,583.4
Total Capital Expenditures/Outflows:	<u>255.0</u>	<u>245.9</u>	<u>255.1</u>	<u>247.9</u>	<u>175.9</u>	<u>244.4</u>	<u>185.2</u>	<u>140.2</u>	<u>166.4</u>	<u>158.9</u>	<u>221.2</u>	<u>381.3</u>	<u>2,677.4</u>
Net Capital Funds	\$ (185.0)	\$ (7.6)	\$ (82.2)	\$ (207.7)	\$ (70.3)	\$ 554.2	\$ (181.7)	\$ 162.4	\$ 40.3	\$ (156.8)	\$ 93.3	\$ (52.9)	\$ (94.0)
Financing Activities:													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	300.0	0.0	0.0	0.0	430.0	0.0	0.0	150.0	0.0	0.0	250.0	1,130.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	0.0	1,217.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,217.9
Total Cash Flow Financing Activities Inflows	0.0	300.0	1,217.9	0.0	0.0	430.0	0.0	0.0	150.0	0.0	0.0	250.0	2,347.9
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	300.2	0.0	0.0	300.0	0.0	0.0	0.0	0.7	280.0	0.0	881.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	355.3	435.0	436.0	1,226.3
Total Cash Flow Financing Activities Outflows	<u>0.0</u>	<u>0.0</u>	<u>300.2</u>	<u>0.0</u>	<u>0.0</u>	<u>300.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>356.0</u>	<u>715.0</u>	<u>436.0</u>	<u>2,107.3</u>
Net Financing Activities	\$ 0.0	\$ 300.0	\$ 917.7	\$ 0.0	\$ (0.0)	\$ 130.0	\$ (0.0)	\$ (0.0)	\$ 150.0	\$ (356.0)	\$ (715.0)	\$ (186.0)	\$ 240.6
Ending Non-Segregated Operating Cash Balance	\$ 581.8	\$ 837.7	\$ 1,033.1	\$ 703.4	\$ 529.2	\$ 890.1	\$ 1,271.7	\$ 988.4	\$ 891.4	\$ 1,325.2	\$ 1,474.2	\$ 860.2	\$ 860.2

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

Overview of Fiscal 2011 Non-Segregated Operating Cash Flow (in millions) (1)

(as of June 3, 2010)

	<u>Jul (2)</u>	<u>Aug (2)</u>	<u>Sep (2)</u>	<u>Oct (2)</u>	<u>Nov (2)</u>	<u>Dec (2)</u>	<u>Jan (2)</u>	<u>Feb (2)</u>	<u>Mar (2)</u>	<u>Apr (2)</u>	<u>May (2)</u>	<u>June (2)</u>	Total FY 2011 (2)
Opening Non-Segregated Operating Cash Balance	\$ 860.2	\$ 942.3	\$ 978.9	\$ 1,847.5	\$ 1,646.8	\$ 1,256.9	\$ 782.2	\$ 1,246.9	\$ 932.8	\$ 222.9	\$ 989.6	\$ 837.2	\$ 860.2
Operating Activities:													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	146.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	146.0
Total Budgetary Revenue/Inflows	2,049.7	2,238.9	2,892.8	2,155.9	2,184.1	2,868.9	2,708.5	2,229.4	3,089.3	3,711.8	2,655.2	2,997.5	31,782.0
Total Budgetary Expenditures/Outflows	1,970.2	2,195.6	3,194.4	2,298.8	2,386.6	3,168.2	2,114.1	2,350.0	3,499.0	2,309.0	2,084.2	2,689.4	30,259.6
Net Budgetary Funds	79.6	43.3	(301.6)	(142.9)	(202.5)	(299.2)	594.4	(120.6)	(409.7)	1,402.8	571.0	308.1	1,522.5
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	824.1	760.6	907.6	645.3	665.6	759.2	706.9	594.8	659.6	587.8	557.0	610.5	8,279.1
Total Non Budgetary Expenditures/Outflows	813.8	779.0	1,131.1	706.1	857.4	935.2	838.6	788.8	958.2	832.9	787.8	896.0	10,325.2
Net Non Budgetary Funds	10.3	(18.4)	(223.5)	(60.8)	(191.8)	(175.9)	(131.7)	(194.0)	(298.6)	(245.1)	(230.8)	(285.6)	(2,046.1)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	<u>1.0</u>	<u>1.5</u>	<u>0.5</u>	<u>15.0</u>	<u>1.0</u>	<u>1.0</u>	<u>0.5</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>25.5</u>
Net Operating Activities	\$ 90.8	\$ 26.4	\$ (524.7)	\$ (188.7)	\$ (393.3)	\$ (474.1)	\$ 463.1	\$ (313.6)	\$ (707.4)	\$ 1,158.6	\$ 341.1	\$ 23.5	\$ (498.1)
Federal Grants:													
Total Federal Grants Revenue/Inflows	210.0	215.0	200.0	200.0	229.0	278.0	255.0	221.0	221.0	235.0	225.0	275.0	2,764.0
Total Federal Grants Expenditures/Outflows	<u>218.8</u>	<u>204.8</u>	<u>206.8</u>	<u>212.0</u>	<u>225.5</u>	<u>278.5</u>	<u>253.5</u>	<u>221.5</u>	<u>223.5</u>	<u>227.0</u>	<u>218.5</u>	<u>276.5</u>	<u>2,766.9</u>
Net Federal Grants	\$ (8.8)	\$ 10.2	\$ (6.8)	\$ (12.0)	\$ 3.5	\$ (0.5)	\$ 1.5	\$ (0.5)	\$ (2.5)	\$ 8.0	\$ 6.5	\$ (1.5)	\$ (2.9)
Capital Funds:													
Total Capital Revenue/Inflows	278.4	234.2	265.1	489.0	241.0	291.3	253.8	181.8	191.7	194.8	179.4	374.8	3,175.3
Total Capital Expenditures/Outflows:	<u>278.3</u>	<u>234.2</u>	<u>265.1</u>	<u>239.0</u>	<u>241.0</u>	<u>291.3</u>	<u>253.8</u>	<u>181.8</u>	<u>191.7</u>	<u>194.8</u>	<u>179.4</u>	<u>374.8</u>	<u>2,925.3</u>
Net Capital Funds	\$ 0.0	\$ 0.0	\$ (0.0)	\$ 250.0	\$ (0.0)	\$ (0.0)	\$ 0.0	\$ (0.0)	\$ 0.0	\$ 0.0	\$ (0.0)	\$ 0.0	\$ 250.0
Financing Activities:													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	0.0	1,400.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,400.0
Total Cash Flow Financing Activities Inflows	0.0	0.0	1,400.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,400.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	0.0	250.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	250.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	400.0	500.0	500.0	1,400.0
Total Cash Flow Financing Activities Outflows	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>250.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>400.0</u>	<u>500.0</u>	<u>500.0</u>	<u>1,650.0</u>
Net Financing Activities	\$ 0.0	\$ 0.0	\$ 1,400.0	\$ (250.0)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ (400.0)	\$ (500.0)	\$ (500.0)	\$ (250.0)
Ending Non-Segregated Operating Cash Balance	\$ 942.3	\$ 978.9	\$ 1,847.5	\$ 1,646.8	\$ 1,256.9	\$ 782.2	\$ 1,246.9	\$ 932.8	\$ 222.9	\$ 989.6	\$ 837.2	\$ 359.2	\$ 359.2

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

LONG-TERM LIABILITIES

General Authority to Borrow

Under its constitution, the Commonwealth may borrow money (a) for defense or in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (b) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner be given or loaned to or in aid of any individual, or of any private association, or of any corporation which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, which includes bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for payment of principal of or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to states.

Commonwealth Debt. The State Treasurer is statutorily responsible for the borrowing needs of the Commonwealth, including short-term cash flow needs and long-term borrowing needs for the capital budget. Borrowing is accomplished through the sale of short-term notes and long-term bonds. The Commonwealth is authorized to issue three types of direct debt – general obligation debt, special obligation debt and federal grant anticipation notes. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. See “General Obligation Debt” below. Special obligation debt may be secured either with a pledge of receipts credited to the Commonwealth Transportation Fund (formerly the Highway Fund) or with a pledge of receipts credited to the Convention Center Fund. See “Special Obligation Debt” below. Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. See “Federal Grant Anticipation Notes” below.

Other Long-Term Liabilities. The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as (a) general obligation contract assistance liabilities, (b) budgetary contract assistance liabilities or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance liabilities arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such liabilities constitute a pledge of the Commonwealth’s credit for which a two-thirds vote of the Legislature is required. See “General Obligation Contract Assistance Liabilities” below.

Budgetary contract assistance liabilities arise from statutory requirements for payments by the Commonwealth under capital leases and other contractual agreements. Such liabilities do not constitute a pledge of the Commonwealth’s credit. See “Budgetary Contract Assistance Liabilities” below.

Contingent liabilities relate to debt obligations of certain independent authorities and agencies of the Commonwealth that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These liabilities consist of guaranties and similar obligations with respect to which the Commonwealth’s credit has been or may be pledged, as in the case of certain debt obligations of the MBTA, regional transit authorities, the Woods Hole, Martha’s Vineyard and Nantucket Steamship Authority, and the higher education building authorities. The Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth’s credit has not been

pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from moneys otherwise appropriated for the affected institution, owed by certain community colleges and state colleges on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority. See "Contingent Liabilities" below.

Statutory Limit on Direct Debt. Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29 of the General Laws, set a fiscal 1991 limit of \$6.8 billion and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. This limit is calculated under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of underwriters' discount, costs of issuance and other financing costs. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to special legislation enacted over the years, certain outstanding Commonwealth debt obligations are not counted in computing the amount of bonds subject to the limit, including Commonwealth refunding/restructuring bonds issued in September and October, 1991, federal grant anticipation notes, bonds issued to pay operating notes issued by the MBTA or to reimburse the Commonwealth for advances to the MBTA, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund, bonds issued to finance the Massachusetts School Building Authority and bonds issued to finance the Commonwealth's accelerated structurally-deficient bridge program. The statutory limit on "direct" bonds during fiscal 2010 is approximately \$17.183 billion.

The outstanding Commonwealth debt, the amounts of such outstanding debt excluded from the statutory debt limit, the net amounts of such outstanding Commonwealth debt subject to the statutory debt limit and the statutory debt limit as of the end of each of the last five fiscal years are shown in the following table on a statutory basis:

Calculation of the Debt Limit (in thousands)

	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>
Balance as of June 30	\$17,856,799	\$18,461,406	\$18,736,961	\$18,734,440	\$19,264,569
Plus/ (Less) amounts excluded:					
Unamortized					
(discount)/premium and issuance					
costs	70,937	112,673	102,043	123,390	216,890
1991 refunding/restructuring	-	-	-	-	-
Special obligation debt (1)	(1,485,548)	(1,291,266)	(1,260,941)	(1,126,668)	(1,100,698)
Federal grant anticipation					
notes (1)	(1,908,015)	(1,789,876)	(1,666,690)	(1,536,206)	(1,134,797)
Assumed county debt	(600)	(525)	(450)	(375)	(300)
MBTA forward funding	(511,546)	(416,830)	(368,873)	(309,203)	(231,000)
Transportation Infrastructure					
Fund	(1,336,741)	(1,476,287)	(1,462,870)	(1,434,654)	(1,401,581)
MSBA	<u>(500,000)</u>	<u>(1,000,002)</u>	<u>(946,285)</u>	<u>(946,285)</u>	<u>(921,751)</u>
Outstanding Direct Debt(2)	<u>\$12,185,286</u>	<u>\$12,599,293</u>	<u>\$13,132,895</u>	<u>\$13,504,384</u>	<u>\$14,691,322</u>
Statutory Debt Limit	<u>\$13,463,535</u>	<u>\$14,136,712</u>	<u>\$14,843,547</u>	<u>\$15,585,725</u>	<u>\$16,365,011</u>

SOURCE: Office of the Comptroller.

(1) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

(2) Includes capital appreciation bonds reported at original net proceeds.

Limit on Debt Service Appropriations. In January, 1990, legislation was enacted to impose a limit on debt service appropriations in Commonwealth budgets beginning in fiscal 1991. The law, which is codified as Section 60B of Chapter 29 of the General Laws, provides that no more than 10% of the total appropriations in any fiscal year may be expended for payment of interest and principal on general obligation debt of the Commonwealth.

Debt service relating to bonds that are excluded from the debt limit on direct debt is not included in the limit on debt service appropriations. See “*Statutory Limit on Direct Debt*” above. Section 60B is subject to amendment or repeal by the Legislature at any time and may be superseded in the annual appropriations act for any year. The following table shows the percentage of total appropriations expended from the budgeted operating funds for debt service on general obligation debt (excluding debt service on bonds excluded from the debt limit) in the fiscal years indicated:

Debt Service Expenditures (in millions)

<u>Fiscal Year</u>	<u>Budgeted Debt Service</u>	<u>Total Budgeted Expenditures and Other Uses</u>	<u>Percentage</u>
2005	1,398.7	23,779.1	5.9
2006	1,422.8	25,584.6	5.6
2007	1,611.6	28,922.9	5.6
2008	1,598.0	30,808.4	5.2
2009	1,580.4	30,606.6	5.2

SOURCE: Office of the Comptroller.

General Obligation Debt

The Commonwealth issues general obligation bonds and notes pursuant to Chapter 29 of the General Laws. General obligation bonds and notes issued thereunder are deemed to be general obligations of the Commonwealth to which its full faith and credit is pledged for the payment of principal and interest when due, unless specifically provided otherwise on the face of such bond or note.

As of December 31, 2009, the Commonwealth had approximately \$17.2 billion in general obligation bonds outstanding, of which \$13.6 billion, or approximately 79% was fixed rate debt and \$3.6 billion, or 21%, was variable rate debt. The Commonwealth’s outstanding general obligation variable rate debt consists of several variable rate structures. Most of the outstanding variable rate bonds are in the form of variable rate demand bonds, which account for \$2.2 billion of outstanding general obligation debt as of December 31, 2009. Other outstanding variable rate structures include LIBOR index bonds, auction rate securities, and consumer price index bonds. Of the variable rate debt outstanding, the interest rates on \$3.2 billion, or approximately 19% of total general obligation debt, have been synthetically fixed by means of floating-to-fixed interest rate swap agreements. These agreements are used as hedges to mitigate the risk associated with variable rate bonds.

Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date constitute general obligations of the Commonwealth to which its full faith and credit are pledged. The remaining variable rate debt of \$323 million, or approximately 2% of the total outstanding general obligation debt, is unhedged and, accordingly, floats with interest rates re-set on a weekly basis.

As of December 31, 2009, the Commonwealth had outstanding approximately \$145.1 million (\$76.4 million principal and \$68.8 million discount) of variable rate “U. Plan” bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority, which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%.

The Commonwealth has issued general obligation bonds in the form of Build America Bonds (BABs). BABs were authorized under the federal American Recovery and Reinvestment Act of 2009 (ARRA). Pursuant to ARRA, the Commonwealth is entitled to receive a cash subsidy from the federal government equal to 35% of the investment payable on the BABs provided the Commonwealth makes certain required filings in accordance with applicable federal rules. Such interest subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to the federal government or its agencies. The Commonwealth is obligated to make payments of principal and interest on the BABs whether or not it receives interest subsidy payments. As of June 1, 2010, the Commonwealth had approximately \$1.4 billion of BABs outstanding.

The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of revenue receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including, in some circumstances special obligation bonds. See “Special Obligation Debt” below. In addition, the Commonwealth currently has liquidity support for an \$800 million commercial paper program which it utilizes regularly for cash flow purposes. In addition to borrowing via its commercial paper program, the Commonwealth issues fixed-rate revenue anticipation notes (or “RANs”).

Special Obligation Debt

The Commonwealth Transportation Fund. Section 20 of Chapter 29 of the General Laws, as amended, authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Commonwealth Transportation Fund (formerly the Highway Fund). Revenues, which are currently accounted to the Commonwealth Transportation Fund, are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax and registry of motor vehicles fees. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed \$1.125 billion. As of December 31, 2009, the Commonwealth had outstanding \$449.5 million of such special obligation bonds secured by a pledge of 6.86¢ of the 21¢ motor fuels excise tax.

On August 4, 2008, the Governor approved legislation that authorizes the issuance of an additional \$1.9 billion of special obligation bonds secured by a pledge of motor fuels excise tax receipts to fund a portion of the Commonwealth’s accelerated structurally-deficient bridge program. The legislation was amended in 2009 to allow the state treasurer to issue special obligation bonds payable solely from moneys credited to the Commonwealth Transportation Fund for the accelerated structurally-deficient bridge program. To date, no such bonds have been issued. See “COMMONWEALTH CAPITAL INVESTMENT PLAN.”

Convention Center Fund. Chapter 152 of the Acts of 1997, as amended, authorizes \$694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston (\$609.4 million), the Springfield Civic Center (\$66 million) and the Worcester convention center (\$19 million). The bonds are payable from moneys credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June, 2004, the Commonwealth issued \$686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, \$638.7 million of which remained outstanding as of December 31, 2009.

Federal Grant Anticipation Notes

The Commonwealth has issued federal grant anticipation notes yielding aggregate net proceeds of \$1.5 billion, the full amount authorized to finance the current cash flow needs of the Central Artery/Ted Williams Tunnel (CA/T) project, in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than \$17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed \$216 million unless the rating agencies rating the notes confirm that exceeding \$216 million in annual debt

service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from state appropriations. As of December 31, 2009, \$910 million of such notes remained outstanding.

On August 4, 2008, the Governor approved legislation authorizing the issuance of an additional \$1.1 billion of grant anticipation notes secured by future federal funds to fund a portion of the Commonwealth's accelerated structurally deficient bridge program. Similar to the notes issued for the CA/T project, the Commonwealth expects to pay interest on the notes for the bridge program from state appropriations. To date, no such notes have yet been issued.

The following table shows long-term debt of the Commonwealth issued and retired from fiscal 2005 through fiscal 2009, exclusive of unamortized bond premiums:

General and Special Obligation Long-Term Debt Issuance and Repayment Analysis (in thousands) (1)

	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>
Beginning Balance as of July 1	\$17,382,172	\$17,856,799	\$18,461,406	\$18,736,961	\$18,734,440
Debt Issued	1,267,281	1,770,346	1,556,485	1,280,824	1,887,108
Subtotal	<u>18,649,453</u>	<u>19,627,145</u>	<u>20,017,891</u>	<u>20,017,785</u>	<u>20,621,548</u>
Debt retired or defeased, exclusive of refunded debt	(882,266)	(1,024,542)	(1,399,715)	1,179,730	(1,227,029)
Refunding debt issued, net of refunded debt (3)	<u>89,612</u>	<u>(141,197)</u>	<u>118,785</u>	<u>103,615</u>	<u>(129,950)</u>
Ending Balance June 30 (2)	<u>\$17,856,799</u>	<u>\$18,461,406</u>	<u>\$18,736,961</u>	<u>\$18,734,440</u>	<u>\$19,264,569</u>

SOURCE: Office of the Comptroller.

(1) Including premium, discount and accretion of capital appreciation bonds.

(2) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

(3) Amounts may be negative due to defeasances of debt of authorities from the issuance of Commonwealth debt as afforded under General Laws.

The following table sets forth the amounts of Commonwealth long-term general obligation debt, special obligation debt and federal grant anticipation notes outstanding, exclusive of unamortized bond premiums, as of the end of the last five fiscal years.

Outstanding Long Term Commonwealth Debt (in thousands)

	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>December 31, 2009</u>
General Obligation Debt	\$14,463,236	\$15,383,366	\$15,822,591	\$16,086,470	\$16,073,654	\$17,332,105
Special Obligation Debt	1,485,548	1,288,595	1,248,750	1,112,590	1,112,110	1,088,150
Federal Grant Anticipation Notes (1)	<u>1,908,015</u>	<u>1,789,445</u>	<u>1,665,620</u>	<u>1,535,380</u>	<u>1,203,725</u>	<u>1,064,515</u>
TOTAL	<u>\$17,856,799</u>	<u>\$18,461,406</u>	<u>\$18,736,961</u>	<u>\$18,734,440</u>	<u>\$18,389,489</u>	<u>\$19,484,770</u>

SOURCE: Office of the Comptroller.

(1) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

Interest Rate Swaps

The following table describes the interest rate swap agreements, all of which are floating-to-fixed rate hedges that the Commonwealth has entered into in connection with certain of its outstanding variable rate bond issues as of December 31, 2009.

<i>General Obligation Bonds:</i>	<u>Associated Bond Issue</u>	<u>Outstanding Notional Amount (in thousands)</u>	<u>Bond Floating Rate</u>	<u>Swap Fixed Rate Paid (Range)</u>	<u>Swap Variable Rate Received</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Counterparty</u>
	Series 1997B	\$162,768	VRDB	4.659%	Cost of Funds/VRDBs	8/12/1997	8/1/2015	Goldman Sachs Matsui Marine Derivative Products Co., LP
	Series 1997B	108,512	VRDB	4.659%	Cost of Funds/VRDBs	8/12/1997	8/1/2015	Ambac Financial Services
	Series 1998A (refunding) Consolidated Loan of 2006, Series A Central Artery Loan of 2000, Series A Central Artery Loan of 2000, Series B	277,683	LIBOR	4.174%	LIBOR	11/17/2008	9/1/2016	Deutsche Bank AG
	Series 1998A	185,122	VRDB	4.174%	Cost of Funds/VRDBs	9/17/1998	9/1/2016	Citi Swapco, Inc.
	Series 2001B & C	496,225	VRDB	4.150%	Cost of Funds/VRDBs	2/20/2001	1/1/2021	Morgan Stanley Derivative Products Inc.
	Series 2003B	87,455	CPI	4.500%	Cost of Funds/CPI	3/12/2003	12/1/2014	Goldman Sachs Matsui Marine Derivative Products Co., LP
	Series 2003B	10,000	CPI	4.500%	Cost of Funds/CPI	10/8/2008	12/1/2013	Deutsche Bank AG
	Series 2005A	540,725	SIFMA	3.15 - 4.004%	Cost of Funds/SIFMA	3/15/2005	2/1/2028	Citi
	Series 2006C	100,000	CPI	3.730 - 3.850%	Cost of Funds/CPI	1/1/2007	11/1/2020	Citi
	Consolidated Loan of 2007, Series A	400,000	LIBOR	4.420%	Cost of Funds/LIBOR	10/8/2008	5/1/2037	Barclays Bank, PLC
	Series 2007A (refunding)	31,665	LIBOR	3.936%	Cost of Funds/LIBOR	10/8/2008	11/1/2020	Deutsche Bank AG
	Series 2007A (refunding)	414,130	LIBOR	3.936 - 4.083%	Cost of Funds/LIBOR	10/8/2008	11/1/2025	Bank of New York Mellon
	Central Artery Loan of 2000, Series A	108,808	SIFMA	3.942%	SIFMA	8/16/2007	8/1/2018	Merrill Lynch Capital Services, Inc.
	Central Artery of 2000, Series A	54,492	SIFMA	3.942%	SIFMA	8/16/2007	8/1/2018	Bear Stearns Financial Products
	Consolidated Loan of 2006, Series B Consolidated Loan of 2000, Series D	294,000	LIBOR	4.515%	LIBOR	4/2/2009	6/15/2033	Barclays Bank, PLC
Subtotal		<u>\$ 3,271,585</u>						

<u>Associated Bond Issue</u>	<u>Outstanding Notional Amount (in thousands)</u>	<u>Bond Floating Rate</u>	<u>Swap Fixed Rate Paid (Range)</u>	<u>Swap Variable Rate Received</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Counterparty</u>
<i>Special Obligation Dedicated Tax Revenue Bonds:</i>							
Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	Goldman Sachs Capital Markets, LP
Series 2004	28,864	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J.P. Morgan Chase Bank
Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J. P. Morgan Chase Bank
Series 2005A	<u>96,490</u>	CPI	4.771 - 5.059%	Cost of Funds/CPI	1/12/2005	6/1/2022	Merrill Lynch Capital Services, Inc.
Subtotal	<u>\$183,080</u>						
Total	<u>\$3,454,665</u>						

SOURCE: Office of the Treasurer and Receiver-General.

Liquidity Facilities

The following table describes the liquidity facilities that the Commonwealth has in connection its commercial paper program certain of its outstanding bond issues as of December 31, 2009.

<u>Associated Program</u>	<u>Facility Amount (in thousands)</u>	<u>Bank</u>	<u>Facility Type</u>	<u>Termination Date</u>
<i>Commercial Paper</i>				
Series E	200,000	Dexia Credit Local	Line/Letter	9/27/2011
Series F	200,000	JPMorgan Chase Bank	Letter	6/30/2010
Series G	200,000	BNP Paribas	Line	12/27/2010
Series H	200,000	The Bank of Nova Scotia	Line	12/29/2010
<i>Variable Rate Bonds</i>				
1997 Series B (Refunding)	271,280	Helaba	Line	8/1/2015
1998 Series A (Refunding)	231,400	JP Morgan Chase Bank	Line	3/12/2010
2000 Series A	200,000	Landesbank Baden-Wurtemberg	Line	12/29/2015
2000 Series B	75,590	State Street Bank	Line	1/29/2012
2001 Series B (Refunding)	248,110	Landesbank Hessen-Thuringen (Helaba)	Line	12/31/2015
2001 Series C (Refunding)	248,115	State Street Bank	Line	2/20/2011
2005 Series A (Refunding)	540,725	Citibank	Line	3/15/2010
2006 Series A	150,000	Dexia Credit Local	Line	3/03/2013
2006 Series B	200,000	Bank of America	Line	3/03/2011

SOURCE: Office of the Treasurer and Receiver-General.

Debt Service Requirements

The following table sets forth, as of December 31, 2009, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable-rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate swap agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable-rate bonds, the schedule assumes a 5% interest rate.

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Debt Service Requirements on Commonwealth Bonds as of December 31, 2009 through Maturity (in thousands) (1)

General Obligation Bonds

Federal Highway Grant Anticipation Notes (2)

Special Obligation Revenue Bonds

<u>Period Ending</u>	<u>Principal</u>	<u>Compounded Interest</u>	<u>Gross Interest</u>	<u>Build America Bonds Subsidies</u>	<u>Net Interest</u>	<u>Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
6/30/2010	\$ 351,023	-	\$ 402,818	-	\$ 402,818	\$ 753,841	\$ 73,145	\$ 25,841	\$ 98,986	\$ 35,530	\$ 28,943	\$ 64,473
6/30/2011	1,063,932	\$ 7,768	813,009	\$ (19,320)	793,689	1,865,389	151,290	44,957	196,247	37,240	56,178	93,418
6/30/2012	968,628	8,266	754,859	(18,159)	736,699	1,713,593	159,365	36,880	196,245	39,135	54,290	93,425
6/30/2013	1,041,529	9,413	704,861	(18,159)	686,702	1,737,644	194,580	28,933	223,513	41,150	52,258	93,408
6/30/2014	932,292	7,735	656,445	(18,159)	638,286	1,578,313	239,065	16,727	255,792	37,170	50,020	87,190
6/30/2015	928,103	7,686	611,585	(18,159)	593,426	1,529,215	<u>247,070</u>	<u>5,641</u>	<u>252,711</u>	59,065	48,117	107,182
6/30/2016	979,764	6,083	568,321	(18,159)	550,161	1,536,009				60,975	44,918	105,893
6/30/2017	871,080	4,533	524,806	(18,159)	506,646	1,382,259				64,675	41,617	106,292
6/30/2018	735,930	3,588	485,361	(18,159)	467,201	1,206,719				46,350	38,425	84,775
6/30/2019	732,162	21,077	448,090	(18,159)	429,931	1,183,169				48,775	36,121	84,896
6/30/2020	813,864	2,236	411,111	(18,159)	392,951	1,209,052				49,020	33,499	82,519
6/30/2021	1,002,329	1,806	366,731	(18,159)	348,572	1,352,706				51,515	31,064	82,579
6/30/2022	798,077	1,625	322,199	(18,159)	304,039	1,103,741				54,355	28,292	82,647
6/30/2023	740,289	1,422	283,763	(18,159)	265,603	1,007,314				36,960	25,428	62,388
6/30/2024	665,332	1,115	249,181	(18,159)	231,022	897,469				28,990	23,443	52,433
6/30/2025	608,680	873	218,721	(18,159)	200,562	810,115				30,625	21,848	52,473
6/30/2026	471,168	708	191,904	(18,159)	173,745	645,621				32,360	20,164	52,524
6/30/2027	465,191	522	169,250	(18,159)	151,091	616,804				34,190	18,384	52,574
6/30/2028	275,969	345	150,691	(18,159)	132,531	408,846				36,125	16,504	52,629
6/30/2029	360,171	139	135,192	(18,159)	117,033	477,343				38,170	14,517	52,687
6/30/2030	519,376	<u>79</u>	117,588	(18,159)	99,429	618,885				40,330	12,418	52,748
6/30/2031	301,135		91,233	(14,445)	76,787	377,922				42,610	10,199	52,809
6/30/2032	216,715		81,076	(14,445)	66,631	283,346				45,020	7,856	52,876
6/30/2033	187,300		69,908	(12,440)	57,468	244,768				47,565	5,380	52,945
6/30/2034	188,585		60,460	(11,068)	49,392	237,977				<u>50,250</u>	<u>2,764</u>	<u>53,014</u>
6/30/2035	196,755		50,745	(9,647)	41,098	237,853						
6/30/2036	205,130		40,643	(8,177)	32,466	237,596						
6/30/2037	214,730		30,106	(6,654)	23,452	238,182						
6/30/2038	194,135		19,102	(5,077)	14,025	208,160						
6/30/2039	123,805		10,940	(3,445)	7,495	131,300						
6/30/2040	<u>91,905</u>		<u>4,596</u>	<u>(1,609)</u>	<u>2,988</u>	<u>94,893</u>						
TOTAL	<u>\$17,245,085</u>	<u>\$ 87,020</u>	<u>\$ 9,045,297</u>	<u>\$ (451,356)</u>	<u>\$ 8,593,942</u>	<u>\$ 25,926,047</u>	<u>\$ 1,064,515</u>	<u>\$ 158,979</u>	<u>\$ 1,223,494</u>	<u>\$1,088,150</u>	<u>\$722,646</u>	<u>\$1,810,796</u>

SOURCE: Office of the Comptroller.

(1) Totals may not add due to rounding.

(2) Includes a series of crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

General Obligation Contract Assistance Liabilities

Massachusetts Department of Transportation, as successor to the Massachusetts Turnpike Authority. On February 19, 1999, the Commonwealth and the Massachusetts Turnpike Authority entered into a contract which provides for the Commonwealth to make annual operating assistance payments to the Massachusetts Department of Transportation (MassDOT), as successor to the Authority, which are capped at \$25 million annually and extend until the end of the 40th fiscal year following the transfer of certain facilities associated with the Commonwealth's Central Artery/Ted Williams Tunnel Project (CA/T) to MassDOT. On June 30, 2009, the Commonwealth and the Turnpike Authority entered into a contract for financial assistance which provides for the payment by the Commonwealth to MassDOT, as successor to the Authority, of \$100 million per fiscal year, commencing July 1, 2009 until June 30, 2039. Payments under both contracts constitute a general obligation pledge of the Commonwealth for which the full faith and credit of the Commonwealth are pledged.

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust (the "Trust") manages the Commonwealth's state revolving fund program under the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving funds and to issue debt obligations to make loans to local governmental units and others to finance eligible water pollution abatement and water treatment projects. Under state law, loans made by the Trust are required to provide for subsidies or other financial assistance to reduce the debt service expense on the loans. Currently, most new loans made by the Trust bear interest at 2%. Other loans made by the Trust have, in the past, and may in the future, bear interest at lower rates, including a zero rate of interest, and a portion of the principal of certain loans has also been subsidized by the Trust. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. Under the Trust's enabling act, the aggregate annual contract assistance payment for the Trust's Clean Water Act program may not exceed \$71 million, and the aggregate annual contract assistance payment for the Trust's Safe Drinking Water Act program may not exceed \$17 million. The Commonwealth's agreement to provide contract assistance constitutes a general obligation of the Commonwealth for which its faith and credit are pledged, and the Commonwealth's contract assistance payments are pledged as security for repayment of the Trust's debt obligations. As of December 31, 2009 the Trust had approximately \$3.3 billion of bonds outstanding. Approximately 14.2% of the Trust's aggregate debt service is covered by Commonwealth contract assistance. The Trust intends to issue additional fixed-rate bonds in the aggregate principal amount of approximately \$520 million in July, 2010.

Massachusetts Development Finance Agency. On June 12, 2008, the Governor approved legislation amending a 2006 law authorizing an "infrastructure investment incentive" program, known as "I-Cubed." The amendment, among other things, clarifies the manner in which the program is to be financed and the security for the related bonds. Under the program, up to \$250 million of public infrastructure improvements to support significant new private developments may be financed by bonds issued by the Massachusetts Development Finance Agency (MassDevelopment) that will be secured by and payable from a general obligation pledge of contract assistance from the Commonwealth. Until a related new private development is completed and occupied, the developer's property will be assessed by the municipality in which the development is located in amounts equal to the debt service cost on the bonds to reimburse the Commonwealth for such cost. After each phase of the private development is completed and occupied, the municipality will be required to reimburse the Commonwealth for any portion of the debt service cost on the bonds that is not covered by new state tax revenues generated from the related private development. The municipality's reimbursement obligation will be secured by a general obligation pledge of the municipality, a local aid intercept and a reserve fund which must be funded in an amount equal to or greater than two years of debt service on the bonds. The obligation of the municipality ends when the Commonwealth has collected revenues sufficient to pay principal and interest payments to date plus all remaining principal payments due. Pursuant to this legislation, in April, 2010, MassDevelopment issued \$10 million of two-year bond anticipation notes in anticipation of the issuance of up to \$20 million of bonds to finance certain public infrastructure costs at a development in Somerville, Massachusetts.

Legislation approved by the Governor on August 8, 2008 includes an authorization to finance up to \$43 million of the costs of a parkway at the former South Weymouth naval air base to support the development of the former base. Similar to the I-Cubed program financing model, the bonds to be issued by MassDevelopment to finance the parkway will be secured and payable from a general obligation pledge of contract assistance from the

Commonwealth. In the event that the new state tax revenues generated from the new private development are less than the debt service cost on the bonds, it is expected that the South Shore Tri-Town Development Corporation, a public entity with municipal taxing and other powers over the geographic area of the former base, would be required to reimburse the Commonwealth for any such shortfall. The legislation provides that such payment obligations of the Corporation be secured by a general obligation pledge of the Corporation. Pursuant to this legislation, MassDevelopment expects to issue approximately \$30 million in bonds in June, 2010.

The following table sets forth the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation (as successor to the Massachusetts Turnpike Authority) and Massachusetts Development Finance Agency. These figures are as of June 30, 2009.

General Obligation Contract Assistance Requirements (in thousands)(1)

<u>Fiscal Year</u>	<u>Massachusetts Water Pollution Abatement Trust</u>	<u>Massachusetts Department of Transportation</u>	<u>Massachusetts Development Finance Agency</u>	<u>Total</u>
2010	\$ 67,262	\$ 125,000	-	\$ 192,262
2011	66,066	125,000	\$ 2,069	193,135
2012	64,834	125,000	2,069	191,903
2013	62,383	125,000	2,075	189,458
2014	59,343	125,000	3,129	187,472
2015	57,911	125,000	3,130	186,041
2016	53,081	125,000	3,126	181,207
2017	45,970	125,000	3,126	174,096
2018	40,276	125,000	3,129	168,405
2019	40,063	125,000	3,127	168,190
2020	34,747	125,000	3,128	162,875
2021	27,934	125,000	3,130	156,064
2022	18,772	125,000	3,126	146,898
2023	19,184	125,000	3,126	147,310
2024	11,186	125,000	3,129	139,315
2025	7,231	125,000	3,125	135,356
2026 through 2045	<u>12,963(1)</u>	<u>1,900,000(2)</u>	<u>46,913</u>	<u>1,959,876</u>
Total	<u>\$689,206</u>	<u>\$3,900,000</u>	<u>\$90,657</u>	<u>\$4,679,863</u>

SOURCES: Massachusetts Water Pollution Abatement Trust column – Office of the State Treasurer; Massachusetts Department of Transportation and MassDevelopment columns - Executive Office for Administration and Finance.

(1) Contract assistance requirements end fiscal 2029.

(2) Represents \$25 million per year for fiscal years 2026 to 2045, inclusive and \$100 million per year for fiscal years 2026 to 2039, inclusive.

(3) Represents estimated debt service payments on \$20 million in bonds expected to be issued in 2012 to retire outstanding bond anticipation notes and \$30 million in bonds expected to be issued in June 2010.

Budgetary Contract Assistance Liabilities

Plymouth County Certificates of Participation. In May, 1992, Plymouth County caused to be issued approximately \$110.5 million of certificates of participation to finance the construction of a county correctional facility. In March, 1999, Plymouth County caused to be issued approximately \$140.1 million of certificates of participation to advance refund the 1992 certificates, construct an administration office building and auxiliary facilities near the county correctional facility and fund repairs and improvements to the facility. The certificates bear interest at a fixed rate with a final maturity of April 1, 2022. The Commonwealth, acting through the Executive Office of Public Safety and Security and the Department of Correction, is obligated under a memorandum of agreement with Plymouth County to pay an amount at least equal to the debt service on the outstanding certificates of participation, but are subject to appropriation of such amounts by the Legislature in the annual budgetary line item for the Executive Office of Public Safety and Security. The obligation of the Commonwealth under the memorandum of agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth. As of December 31, 2009, such certificates were outstanding in the aggregate principal amount of \$94,205,000. The

Commonwealth is considering refunding opportunities, including issuing refunding bonds as Commonwealth general obligation bonds, which is permitted pursuant to authorization granted in legislation approved by the Governor on August 11, 2008.

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. In August, 2000, the Route 3 North Transportation Improvements Association (the “Association”) issued approximately \$394.3 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In May, 2002, the Route 3 North Transportation Improvements Association issued approximately \$312.7 million of additional lease revenue bonds, \$305.6 million of which were issued as refunding bonds. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease, the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. In May, 2007 and November, 2008, the Commonwealth sold general obligation bonds to refund most of the lease revenue bonds and replace them with fixed-rate general obligation bonds. As of December 31, 2009, the Route 3 North Transportation Improvements Association had \$26.8 million of such lease revenue bonds outstanding, all of which are fixed-rate.

Saltonstall Building Redevelopment Corporation Project. In May, 2002, MassDevelopment issued \$195.8 million of lease revenue bonds pursuant to an agreement to loan the proceeds of the bonds to the MassDevelopment/ Saltonstall Building Redevelopment Corporation. The loan was used to finance the redevelopment of the Saltonstall State Office Building. Under the provisions of the legislation relating to the building’s redevelopment, the building was leased to MassDevelopment/Saltonstall Building Redevelopment Corporation for a term of up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment/Saltonstall Building Redevelopment Corporation has paid the Commonwealth \$1,699,517 in ground rent and \$14,719 in accrued interest for the first six months of fiscal 2010. For January through June, 2010, the additional projected ground rent payments will be \$3,218,053, and the accrued interest payments will be \$4,766. The accrued rent balance is projected to be approximately \$2.2 million, and the accrued interest is projected to be approximately \$600.00.

MassDevelopment/Saltonstall Building Redevelopment Corporation has renovated the building and subleased half of it back to the Commonwealth for office space and related parking (for a comparable lease term), in respect of which sublease the Commonwealth makes sublease payments to MassDevelopment/Saltonstall Building Redevelopment Corporation. The remainder of the building has been redeveloped as private office space, as well as private housing units and retail establishments. The obligations of the Commonwealth under the office sublease do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth’s full-year costs include \$7,076,954 per year of base rent and parking space rent for the first five years, after which the parking space rent may be adjusted for fair market value every five years. In addition, included in the table below are the Commonwealth’s estimated pro-rata shares of office operating expense reimbursements, escalating at 3% per year and also the Commonwealth’s replacement reserve contribution calculated at 21¢ per rental square foot per year.

As of December 31, 2009, MassDevelopment/Saltonstall Building Redevelopment Corporation had approximately \$169.5 million of such lease revenue bonds outstanding.

Long-Term Operating Leases and Capital Leases. In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at June 30, 2009 are set forth in the table below.

The following table sets forth the Commonwealth's budgetary contract assistance requirements. These figures are as of June 30, 2009.

Budgetary Contract Assistance Liabilities (in thousands)

<u>Fiscal Year</u>	<u>Plymouth County Certificates of Participation</u>	<u>Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds</u>	<u>MassDevelopment/ Saltonstall Building Redevelopment Corporation Lease Revenue Bonds(1)</u>	<u>Other Leases(2)</u>	<u>Total</u>
2010	\$ 10,244	\$ 9,618	\$ 9,437	\$178,246	\$207,545
2011	10,245	9,618	9,509	138,562	167,934
2012	10,240	5,409	9,578	111,256	136,483
2013	10,245	1,129	9,649	85,203	106,226
2014	10,244	1,130	9,723	59,869	80,966
2015	10,250	1,128	9,840	36,073	57,291
2016	10,245	1,129	9,917	36,073	57,364
2017	10,238	1,116	9,998	36,073	57,425
2018	10,244	--	10,080	36,073	56,397
2019	10,244	--	10,165	36,073	56,482
2020	10,246	--	10,296	14,050	34,592
2021	10,243	--	10,386	14,050	34,679
2022	10,252	--	10,479	14,050	34,781
2023	--	--	10,575	14,050	24,625
2024	--	--	10,674	14,050	24,724
2025 through 2035	--	--	<u>126,360</u>	<u>88,460</u>	<u>214,820</u>
Total	<u>\$133,180</u>	<u>\$30,277</u>	<u>\$276,666</u>	<u>\$912,211</u>	<u>\$1,352,334</u>

SOURCES: Other Leases column - Office of the Comptroller; GAAP Basis, all other columns - Executive Office for Administration and Finance.

(1) Cash flows from the Commonwealth represent gross payments to MassDevelopment, including projections provided by MassDevelopment of the Commonwealth's share of operating costs and other items that are subject to change.

(2) Leases with the institutions of higher education that are supported by tuition and fees are not included.

Contingent Liabilities

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Prior to July 1, 2000, the Commonwealth supported MBTA bonds, notes and other obligations through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth's sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000 and for MBTA payment obligations related to leases, reimbursement obligations, interest exchange agreements and other financing obligations entered into prior to July 1, 2000. The Commonwealth's obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of December 31, 2009, the Massachusetts Bay Transportation Authority had approximately \$855.6 million of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030, with annual debt service in the range of approximately \$166 million to \$156 million through fiscal 2013 and declining thereafter.

Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. The Steamship Authority issues its own bonds and notes. Commonwealth support of the bonds and notes of the Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide the Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to the Authority and the Commonwealth's payment, under applicable statutory

provisions, of the net cost of service of the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of December 31, 2009 the Steamship Authority had approximately \$66.5 million of bonds outstanding. The Commonwealth's obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

University of Massachusetts Building Authority and Massachusetts State College Building Authority. These higher education building authorities, created to assist institutions of public higher education in the Commonwealth, have outstanding bonds some of which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit is pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. As of December 31, 2009, the Massachusetts State College Building Authority had approximately \$44.8 million of Commonwealth-guaranteed debt outstanding. Under its enabling act, the Massachusetts State College Building Authority is not permitted to issue any additional Commonwealth-guaranteed debt. The University of Massachusetts Building Authority may have outstanding up to \$200 million in Commonwealth-guaranteed debt and had approximately \$145.4 million of Commonwealth-guaranteed debt outstanding as of December 31, 2009.

Massachusetts Housing Finance Agency (MassHousing). MassHousing is authorized to issue bonds to finance multi-family housing projects within the Commonwealth and to provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. Such bonds are solely the obligations of MassHousing, payable directly or indirectly from, and secured by a pledge of, revenues derived from MassHousing's mortgage on or other interest in the financed housing. MassHousing's enabling legislation also permits the creation of a capital reserve fund in connection with the issuance of such bonds. No single-family housing bonds secured by capital reserve funds are outstanding, and no such bonds have been issued by MassHousing since 1985. As of December 31, 2009, MassHousing had outstanding approximately \$311.6 million of multi-family housing bonds secured by capital reserve funds. Any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such fund. All such capital reserve funds are maintained at their required levels. If amounts are withdrawn from a capital reserve fund to pay debt service on bonds secured by such fund, upon certification by the chairperson of MassHousing to the Governor of any amount necessary to restore the fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

Regional Transit Authorities. There are 15 regional transit authorities throughout the Commonwealth that provide public transportation in 231 municipalities with areas not served by the MBTA. These authorities are overseen by the Massachusetts Department of Transportation and are funded from operating revenues, federal subsidies, state subsidies and assessments paid by the participating municipalities. The subsidies and local assessments are paid one fiscal year in arrears to reimburse the authorities for the net cost of service not covered by operating revenues. In anticipation of receipt of these subsidies and local assessments in the following fiscal year, the authorities issue revenue anticipation notes to fund their net costs of service. Legislation approved by the Governor on July 13, 2008, provided for the Commonwealth guaranty for revenue anticipation notes issued by regional transit authorities. The legislation provides that the Commonwealth is required to pay any principal or interest on any such note if the authority does not have sufficient funds to make the payment and grants the holder of any such note the right to require such payment by the Commonwealth, which right is enforceable as a claim against the Commonwealth. As of December 31, 2009, revenue anticipation notes issued by regional transit authorities were outstanding in the aggregate principal amount of approximately \$145.3 million.

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Authorized But Unissued Debt

General obligation bonds of the Commonwealth are authorized to correspond with capital appropriations. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Capital Investment Process and Controls.” Over the last decade, the Commonwealth has typically had a large amount of authorized but unissued debt. However, the Commonwealth’s actual expenditures for capital projects in a given year relate more to the capital needs which the Commonwealth determines it can afford to finance in such year than to the total amount of authorized but unissued debt. The table below presents authorized but unissued debt at year end:

Authorized but Unissued Debt (in thousands)

<u>Fiscal Year</u>	<u>Authorized But Unissued Debt</u>
2005	\$ 9,506,821
2006	7,668,331
2007	8,349,391
2008	7,043,446
2009	16,987,024

SOURCE: Office of the Comptroller.

Authorized but unissued debt is measured in accordance with the statutory basis of accounting, which is different from GAAP. Only the net proceeds of bonds issued (exclusive of underwriters’ discount, costs of issuance and other financing costs) are deducted from the amount of authorized but unissued debt. Therefore, the change in authorized but unissued debt at the end of any fiscal year is not intended to correlate to the change in the principal amount of debt outstanding as measured and reported in conformity with GAAP.

COMMONWEALTH CAPITAL INVESTMENT PLAN

The Executive Office for Administration and Finance annually updates its five-year capital investment plan, including its debt affordability analysis. The five-year plan coordinates capital expenditures by state agencies and authorities that are funded primarily by Commonwealth debt, third-party payments and federal reimbursements. Beginning in fiscal 2009 and expected through fiscal 2012, capital funds are also provided pursuant to the American Recovery and Reinvestment Act of 2009.

The Executive Office for Administration and Finance sets an annual administrative limit on the amount of bond-funded capital expenditures. The purpose of the administrative limit, known as the “bond cap,” is to keep Commonwealth debt within affordable levels.

On October 7, 2009, the Governor released a five-year capital investment plan for fiscal 2010 through fiscal 2014, totaling nearly \$17 billion. With the release of the five-year capital investment plan, the Governor announced that the bond cap will be \$1.5 billion for fiscal 2010, plus \$150 million in unused bond cap from fiscal 2009 which has been carried forward to support spending in fiscal 2010. The bond cap for fiscal 2011 is projected to be \$1.625 billion, and is projected to increase by \$125 million in each subsequent fiscal year through fiscal 2014. The five-year capital investment plan for fiscal 2011 through fiscal 2015 is expected to be released by August, 2010.

The bond cap determination is based on the debt affordability policy described in the updated debt affordability analysis. Under this policy, the Executive Office for Administration and Finance will set the annual borrowing limit at a level designed to keep debt service within 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistance payment obligations on certain capital lease financings. In addition, while the Accelerated Bridge Program will be funded outside of the bond cap, the related debt service costs of the program have been fully accounted for under the debt affordability policy in setting the bond cap at the designated levels. However, when a

project financed with debt payable by the Commonwealth directly or indirectly generates new state revenue that is applied to the payment of such debt, the Executive Office for Administration and Finance will exclude the debt, the related debt service payment obligations and the new revenue used to pay such obligations from the debt affordability analysis. For example, bonds issued by MassDevelopment and payable by the Commonwealth pursuant to the I-Cubed program or for the parkway at the former South Weymouth naval base are expected to be excluded from the bond cap, as the Commonwealth's payment liability with respect to such bonds is expected to be covered by the new state tax revenues generated from the private development supported by the infrastructure improvements financed by the bonds. Another example is general obligation bonds to be issued by the Commonwealth pursuant to a new program, the Clean Energy Investment Program, to fund energy efficiency projects at state facilities. Such bonds will be excluded from the bond cap, as the debt service with respect to such bonds will be covered by energy cost and related savings achieved by the state agency hosting the energy efficiency projects.

For purpose of the debt affordability analysis, budgeted revenue includes all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. It does not include off-budget revenues dedicated to the Massachusetts Bay Transportation Authority, the Massachusetts School Building Authority and the Massachusetts Convention Center Authority. The fiscal 2010 estimate was based on the fiscal 2010 budget as originally approved and does not take into account the subsequent downward revision of the fiscal 2010 revenue estimate by the Secretary of Administration and Finance on October 15, 2009. For purposes of projecting budgeted revenue in future fiscal years, the compound annual growth rate in budgeted revenues from fiscal years 2000 through 2010 of 2.66% was applied to fiscal 2011 revenues and to each year thereafter. This is consistent with the debt affordability policy, which states that projected increases to budgeted revenues will be the lesser of 3% or the actual compound annual growth rate over the last ten fiscal years.

In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap for the regular capital program to not more than \$125 million. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels. As noted above, the bond cap is expected to grow by \$125 million from fiscal 2010 through fiscal 2014.

The Executive Office for Administration and Finance will revisit the debt capacity and affordability analysis periodically, and at least every year, to revise estimates for future years by taking into account fluctuations in interest rates, budgeted revenues and other changes affecting the Commonwealth's debt capacity. In addition, the Executive Office for Administration and Finance will annually assess the appropriateness of the methodology and constraints for establishing the bond cap. The conclusions from this analysis will be included in the fiscal 2011 through fiscal 2015 capital investment plan which is expected to be released by August, 2010.

The following table shows the annual bond cap, the resulting estimated total annual debt service payment obligations and the estimated debt service as a percentage of estimated budgeted revenues, all as presented in the debt affordability analysis published on October 7, 2009.

Bond Cap (in thousands)

	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>
Bond Cap (1)	\$ 1,650,000	\$ 1,625,000	\$ 1,750,000	\$ 1,875,000	\$ 2,000,000
Total Debt Service Obligations	2,215,272	2,215,317	2,390,578	2,391,257	2,494,262
Estimated Budgeted Revenue	29,370,942	30,298,677	31,104,291	31,931,577	32,781,022
Debt Service as % of Budgeted Revenues	7.54%	7.31%	7.69%	7.49%	7.61%

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis published October 7, 2009.

(1) Includes \$150 million of fiscal 2009 unused bond cap that has been carried forward to fiscal 2010.

Reflecting changed economic conditions, the total bond cap projected in the fiscal 2010 through fiscal 2014 five-year plan is \$1.1 billion less than the total bond cap projected in the first five-year plan published by the Executive Office for Administration and Finance in July, 2007.

In the past, the Commonwealth aggregated its capital expenditures into seven major categories based primarily on the agencies responsible for spending and carrying out capital projects: economic development, environment, housing, information technology, infrastructure and facilities, public safety, and transportation. The following table sets forth historical capital spending in fiscal 2005 through fiscal 2009 according to these categories:

Commonwealth Historical Capital Spending (in millions)

	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>
Information technology	\$ 61	\$ 88	\$ 53	\$ 65	\$ 97
Infrastructure	262	283	271	186	333
Environment	122	142	153	188	246
Housing	122	129	140	172	252
Public safety	18	19	18	19	21
Transportation	1,300	1,189	1,120	1,109	1,388
Convention centers	54	12	2	-	-
Other	39	30	29	43	96
School building assistance	565	435	-	-	-
Total Uses (1)	<u>\$ 2,543</u>	<u>\$ 2,327</u>	<u>\$ 1,786</u>	<u>\$1,782</u>	<u>\$2,432</u>

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis published October 7, 2009.

(1) Totals may not add due to rounding

For fiscal 2008 through fiscal 2014, the Executive Office for Administration and Finance re-characterized capital spending into 13 categories based on spending purpose, rather than spending agency: community investments, corrections, courts, economic development, energy and environment, health and human services, higher education, housing, information technology, maintenance, public safety, state office buildings and facilities, and transportation. This presentation of capital investment categories results in certain expenditures appearing in categories that are different from those in which they had been categorized in the historical capital spending table above. For example, Chapter 90 local aid for municipal transportation projects appears in the community investment category, rather than the transportation category, because these funds are invested in municipally-owned assets. Similarly, expenditures for Department of Conservation and Recreation roads and bridges appear in the transportation category, rather than the energy and environment category.

The capital investment plan for fiscal 2010 through fiscal 2014 is designed to allocate resources strategically to invest in the Commonwealth's public facilities and programs and represents the Governor's vision for public infrastructure. The following tables show the allocation of bond cap spending by major investment category and the allocation of total capital spending from all sources of funding by major investment category for fiscal 2010 through fiscal 2014.

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Capital Investment Plan - Total Bond Cap (in millions)

Investment Category:	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	5-Year Total	% of 5-Year Total
Community Investment	\$ 235	\$ 223	\$ 241	\$ 259	\$ 244	\$1,203	14%
Corrections	21	21	32	60	95	229	3
Courts	112	69	30	53	109	373	5
Economic Development	87	82	94	107	117	487	5
Energy/Environment	107	103	98	106	109	523	6
Health/Human Services	92	84	80	45	67	368	4
Higher Education	84	124	152	232	235	827	9
Housing	168	168	168	171	173	848	10
Information Technology	75	73	82	86	86	402	5
Public Safety	13	8	15	28	39	103	1
State Buildings	73	92	105	70	61	400	4
Transportation	<u>583</u>	<u>578</u>	<u>653</u>	<u>659</u>	<u>665</u>	<u>3138</u>	<u>35</u>
Total	<u>\$1,650</u>	<u>\$1,625</u>	<u>\$1,750</u>	<u>\$1,875</u>	<u>\$2,000</u>	<u>\$8,900</u>	<u>100%</u>

Capital Investment Plan - All Sources of Funding (in millions)

Investment Category:	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	5-Year Total	% of 5-Year Total
Community Investment	\$ 294	\$ 280	\$ 283	\$ 295	\$ 281	\$1,433	8%
Corrections	26	22	32	60	95	236	1
Courts	112	76	39	62	118	406	2
Economic Development	107	122	168	177	192	767	4
Energy/Environment	121	116	99	106	109	551	3
Health/Human Services	93	89	84	45	67	378	2
Higher Education	99	169	200	234	235	937	5
Housing	297	268	212	173	173	1,124	7
Information Technology	78	76	82	86	86	494	3
Public Safety	39	20	19	28	39	145	1
State Buildings	85	104	105	70	61	425	2
Transportation	<u>1,687</u>	<u>2,133</u>	<u>2,231</u>	<u>2,240</u>	<u>1,855</u>	<u>10,146</u>	<u>60</u>
Total (1)	<u>\$3,039</u>	<u>\$3,475</u>	<u>\$3,554</u>	<u>\$3,577</u>	<u>\$3,311</u>	<u>\$17,042</u>	<u>100%</u>

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis published October 7, 2009.

(1) Totals may not add due to rounding

The different sources of funding for the capital program, as reflected in the table above, include:

- Bond cap – Commonwealth borrowing to support the regular capital program;
- Federal – federal reimbursements for capital expenditures, primarily for transportation projects;
- Third-party – contributions made by third parties to capital projects being carried out by the Commonwealth and Commonwealth contributions to the Central Artery/Ted Williams Tunnel project from annual operating revenues;
- Project-Financed Bonds – self-supporting bonds payable by the Commonwealth from a project-related stream of revenue;
- Accelerated Bridge – Commonwealth gas tax bonds or federal grant anticipation notes issued to fund the Accelerated Bridge Program; and
- American Recovery and Reinvestment Act of 2009 (ARRA) – funds provided by the federal stimulus bill directly to the Commonwealth for targeted capital investments.

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The following table shows the sources of capital funds for fiscal 2009 and the estimated sources of funds for the next five fiscal years:

Capital Investment Plan: Sources of Funds (in millions)

Fiscal Year	Bond Cap	Federal Reimbursements	Third Party	Project Financed	Accelerated Bridge Program	ARRA	Total (1)
2009	\$1,577.0	633.1	119.6	16.2	81.6	4.9	\$2,432.3
2010	1,650.0	717.3	57.5	37.5	357.3	219.1	3,038.7
2011	1,625.0	821.9	88.8	141.1	525.5	272.7	3,475.1
2012	1,750.0	703.0	80.9	179.0	688.7	152.2	3,553.8
2013	1,875.0	698.1	26.2	212.8	668.4	96.0	3,576.6
2014	2,000.0	715.5	24.2	214.0	357.1	0	3,310.8

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis published October 7, 2009.

(1) Totals may not add due to rounding.

LEGAL MATTERS

There are pending in state and federal courts within the Commonwealth and in the Supreme Court of the United States various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to her knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition.

Programs and Services

From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments.

Health Care for All v. Romney, et al., United States District Court. A group of individual plaintiffs brought this action for injunctive and declaratory relief, challenging the Commonwealth's administration of the MassHealth dental program. Specifically, the plaintiffs asserted that the Commonwealth's administration of the dental program fails to comply with federal Medicaid law. In February 2006, the District Court entered judgment against the state defendants on three counts of the plaintiffs' third amended complaint with respect to MassHealth-eligible members under age 21. Pursuant to that judgment, the Commonwealth must develop and implement a remedial plan to improve access to Medicaid-covered dental services for MassHealth-eligible members under age 21. Crucial aspects of the plan, including certain regulatory changes and the retention of a third-party administrator for the MassHealth dental plan, have already been implemented, but it is anticipated that additional program costs necessary to comply with the judgment will be incurred over the next several fiscal years. It is not possible, at this time, to accurately estimate the amount of likely future program costs that will be required to comply with the judgment.

Rosie D., et al. v. The Governor, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") provisions of the Medicaid Act. In February 2007, the District Court adopted the defendants' proposed remedial plan, with some modifications, and, in July 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has begun implementation of its remedial plan. The plan originally contemplated full implementation by June 30, 2009, but, on the Commonwealth's motion, the court modified the judgment to extend the date for full implementation to November 30, 2009. In January 2009, the Court allowed plaintiffs' motion for \$7 million in legal fees. The cost of implementation is likely to exceed \$20 million annually beginning in fiscal 2009. Although in fiscal 2009 the Commonwealth paid the plaintiffs' attorneys approximately \$7.1 million in court-approved fees, plaintiffs are

entitled to submit additional petitions for recovery of attorneys' fees incurred post-judgment (*e.g.*, for monitoring activity), through the end of the remedial plan implementation period (July, 2012). In late May 2010, plaintiffs moved the court for payment of approximately \$1.48 million in attorneys' fees for monitoring the implementation of the judgment during the period from January 1, 2007, through June 30, 2009. Defendants' counsel is presently fashioning a response.

Disability Law Center, Inc. v. Massachusetts Department of Correction et al, United States District Court. The Disability Law Center (DLC) filed suit against the Department of Correction (DOC) and various senior DOC officials, alleging that confining prisoners with mental illness in segregation beyond a short period violates the Eighth Amendment, the Americans with Disabilities Act and the Rehabilitation Act of 1973. DLC asks the court to enjoin DOC from confining mentally ill prisoners in segregation for more than one week and to require DOC to establish a maximum security residential treatment unit or units as an alternative to segregation. DLC has proposed a broad definition of mental illness which, if adopted, would cover a large percentage of DOC's segregation population. DLC's counsel and consultants (a psychiatrist, a psychologist and a corrections specialist) have toured several DOC facilities and have interviewed numerous segregation inmates. DLC has received the medical and mental health records of numerous inmates. On July 31, 2009, the state defendant filed, under seal, a superseding draft settlement agreement that contemplates appropriate services to inmates with serious mental illness while taking account of the Commonwealth's current budgetary constraints. The Disability Law Center (DLC) rejected the state defendant's settlement offer, as proposed. Thereafter, in early November, 2009, the parties filed separate status reports with the Court reporting a cessation of their settlement discussions and, consequently, the need for a trial date. A scheduling order dated February 10, 2010 provides that any amended pleadings must be filed by early May, 2010, and all discovery is to be completed by mid-March, 2011. The Court has set a trial date of June 6, 2011. While the DLC requests only injunctive relief, the Department of Correction has conducted a preliminary funding analysis, which estimates that approximately \$135 million of additional funding would be required over the next five fiscal years relating to program costs and staffing associated with the implementation of provisions of the original draft settlement agreement. This estimate does not include approximately \$8 million in bond funding for information technology infrastructure and related upgrades.

Harper et al. v. Massachusetts Department of Transitional Assistance, United States District Court. This lawsuit was filed by four individuals seeking to represent a class of indigent disabled individuals who apply for or receive subsistence-level cash and/or food stamp benefits from the Massachusetts Department of Transitional Assistance (DTA). Plaintiffs allege that the way DTA administers its programs has the effect of preventing persons with disabilities from having equal access to DTA's benefits and services, and therefore violates the Americans with Disabilities Act and the Rehabilitation Act of 1973. Plaintiffs seek systemic changes to the DTA's policies and procedures as well as to information and telephone systems. DTA has answered the complaint, and the parties are conducting discovery. After the assigned magistrate judge recommended class certification, DTA filed objections with the District Court judge, who has had the matter under advisement since mid-March, 2010. Although the existence and scope of liability are contested by DTA, the cost of implementing the changes demanded by the plaintiffs could cost millions of dollars.

Kristy Didonato, et al. v. Department of Transitional Assistance, et al. (Didonato I and Didonato II), Massachusetts Housing Court Western Division. These are consolidated class actions challenging DTA's practices and procedures relating to emergency shelter placements and, more specifically, its practices and procedures relating to the placement of families in shelters that are located more than 20 miles from their home communities. In October, 2006, the Housing Court allowed the plaintiffs' motion for partial summary judgment on the systemic notice and hearing claims in *Didonato I* and *II*. Following the court's decision, DTA worked with plaintiffs' counsel to implement the court's partial summary judgment decision and also initiated settlement discussions to resolve the remaining claims in the consolidated complaints. Plaintiffs' counsel moved to expand plaintiffs' requested relief to include a demand that DTA adopt a policy requiring that motel placements be used to avoid placing families with school-age children in shelters that are more than 20 miles from their home communities. On July 1, 2009, the emergency shelter program was transferred from DTA to another state agency, the Department of Housing and Community Development. The defendants served a formal opposition to the motion to expand the case in early May 2010. A court hearing has been scheduled for June 17, 2010. If the court agrees to expand the *Didonato* cases to include this claim relating to the use of motels, and ultimately finds that the Commonwealth must facilitate a motel placement before placing a family with school-age children in a shelter more than 20 miles from their home community, the program costs related to implementing such a requirement potentially could exceed \$20 million.

Mass. Community College Council, Inc., et al. v. Board of Higher Ed., et al., Suffolk County Superior Court. A group of individual plaintiffs and the employee organizations to which they belong brought this action for declaratory and mandamus relief, challenging the Commonwealth's criteria for eligibility to enroll in Group Insurance Commission health insurance coverage under G.L. c. 32A and for the payment of a pro-rata contribution for non-eligible employees who obtain health insurance coverage through the Health Insurance Connector Authority. The case is still in the early stages of litigation; the complaint was filed in late November, 2009, and the state defendants' answered on February 12, 2010, denying that the plaintiffs are entitled to any of the relief they demand. While the case is not a class action, if the plaintiffs prevail, it is expected that the Commonwealth would likely make similarly situated persons eligible for coverage or contribution. It is not possible, at this time, to accurately estimate the costs that would be incurred if the plaintiffs prevail.

Finch, et al. v. Health Insurance Connector Authority, et al. Supreme Judicial Court for Suffolk County. This lawsuit, filed directly in the Supreme Judicial Court single justice session, challenges, under the state Equal Protection Clause, a statute enacted in August 2009 that excludes from the Commonwealth Care program, run by the Connector Authority, those individuals who are alien residents with special status (AWSS). Many members of the AWSS population are otherwise eligible for subsidized insurance through the Commonwealth Care program. Because the Commonwealth does not receive federal Medicaid funds for these individuals (unlike other members of Commonwealth Care), the Legislature effectively reduced the Connector Authority's budget by excluding this group of members. The Commonwealth then established a less expensive program to cover much of the AWSS population with health insurance. The lawsuit does not ask for retroactive relief, but seeks to have the individuals reinstated to the Commonwealth Care program. If plaintiffs succeed on their claims, the Commonwealth could incur as much as \$80 to \$100 million in additional costs for covering special status immigrants through Commonwealth Care in fiscal 2011. This is a conservative estimate based on projected average program costs and will be refined as updated cost and enrollment information for special status immigrants becomes available.

Connor B., ex rel. Vigurs, et al. v. Patrick, et al., United States District Court, Western Division. This is a proposed class action in which plaintiffs allege that the Commonwealth's foster care system violates foster children's constitutional and statutory rights to be protected from harm while in state custody; to not be deprived unnecessarily of child-parent and sibling relationships; to safe, stable foster care placements and timely adoption planning and recruitment; to payments to foster care providers that cover the actual costs of providing food, clothing, shelter, and other essential items; and to adequate educational, mental health, medical, and dental services. Plaintiffs further allege that children are abused and neglected while in the Commonwealth's foster care system at a rate higher than the national average; that children in foster care are moved from one placement to another with unusual frequency; that many children never achieve permanency in their placements; and that hundreds of children "age out" of foster care inadequately prepared to live independently as adults. Plaintiffs claim that the system's alleged failures are attributable to an insufficient number of social workers, all carrying excessive caseloads; a dearth of appropriate foster care placements and ancillary services; and insufficient supports (including financial reimbursement) to foster care providers. Defendants have yet to respond to the suit, filed on April 15, 2010, but if plaintiffs succeed in achieving all of the declaratory and injunctive relief they seek, the Commonwealth could be required to expend millions of dollars in increased foster care reimbursement payments, personnel costs, and services.

Medicaid Audits and Regulatory Reviews

In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund). The federal Health Care Financing Administration (now CMS) asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's Health Safety Net Trust Fund (formerly the Uncompensated Care Pool) might violate federal regulations regarding permissible taxes on health care providers. Since 1993, MassHealth has sought federal waivers for the Commonwealth's assessment on acute care hospitals and surcharge payers, respectively, which fund the Uncompensated Care Pool and its successor, the Health Safety Net Trust Fund. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. New federal regulations on health care-related taxes were, in large part, subject to a moratorium on implementation through June 30, 2009, which CMS has extended until June 30, 2010. By the end of pool fiscal year 2010, the Commonwealth will have collected an estimated \$4.836 billion in acute hospital assessments since 1990

and an estimated \$1.717 billion in surcharge payments since 1998. Clarification of the law surrounding permissible provider taxes is a national issue involving a number of states.

In re: Deferral of 2005 MassHealth acute hospital supplemental payments. In March, 2006, CMS deferred payment of claims for FFP totaling almost \$52.5 million. This amount represents the federal share of the portion of MassHealth supplemental payments to Boston Medical Center (“BMC”), Cambridge Health Alliance (“CHA”) and UMass Memorial Health Care, Inc. (“UMMHC”) hospitals attributable to dates of service on or before fiscal 2003. CMS released \$16.4 million in FFP for payments to BMC and CHA and is holding \$27 million in FFP for payments to UMMHC pending resolution of OIG audit discussed below. EOHHS returned \$9 million in FFP based on its own update of projected payment limits.

In re: Disallowance by the U. S. Department of Health and Human Services Centers of Medicare and Medicaid Services (Targeted Case Management). On March 20, 2008, the Centers for Medicare and Medicaid Services (CMS) issued a notice of disallowance of \$86,645,347 in Federal Financial Participation (FFP). As the basis for the disallowance, CMS cited the final findings of an audit conducted by the Office of the Inspector General of the U. S. Department of Health and Human Services regarding Medicaid targeted case management claims for children in the target group of abused or neglected children involved with the Department of Social Services. The Commonwealth appealed the CMS disallowance to the Departmental Appeal Board of the U. S. Department of Health and Human Services. On December 31, 2008, the Departmental Appeals Board affirmed the disallowance. The Commonwealth filed an appeal of the disallowance in federal district court on February 25, 2009. (See *Commonwealth v. Johnson* below.)

Commonwealth v. Johnson, et al., United States District Court. The Attorney General filed this action seeking judicial review of the decision by the federal Centers for Medicare and Medicaid Services (CMS) to deny approximately \$86 million FFP for targeted case management (TCM) services provided by the Department of Children and Families (formerly the Department of Social Services). On March 24, 2010, the District Court entered judgment for the United States. On May 20, 2010, the Commonwealth filed its appeal with the United States Court of Appeals for the First Circuit.

Boston Medical Center Corp. and Boston Medical Center Health Plan, Inc. v. Secretary of the Executive Office of Health and Human Services, Suffolk Superior Court. Plaintiffs filed suit in July 2009 claiming that they are owed at least \$120.9 million in additional payments by the Commonwealth’s Medicaid program for fiscal 2009. Plaintiffs allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services provided to Medicaid clients by the Boston Medical Center hospital and managed care organization entities. Defendant filed an Answer denying all claims. Defendant served a motion to dismiss all claims on May 25, 2010. Plaintiffs must serve their response by July 12, 2010. A hearing on the motion is scheduled for September 29, 2010.

Holyoke Medical Center, Inc., et al. v. Secretary of the Executive Office of Health & Human Services, Suffolk Superior Court. Six community hospitals that mainly serve patients covered by state and federal public insurance plans filed suit in December 2009 claiming that they are owed at least \$115.9 million by the Commonwealth’s Medicaid program. Plaintiffs allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services provided to Medicaid clients by the six plaintiff hospitals. Defendant served a motion to dismiss all claims on March 11, 2010. Plaintiffs must serve their response by June 14, 2010. The hearing on the motion has not yet been scheduled.

Taxes

There are several tax cases pending that could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. As of June 4, 2010, it is estimated that approximately \$145.8 million in contingent liabilities exist in the aggregate in tax cases pending before the Appellate Tax Board, Appeals Court or Supreme Judicial Court. These contingent liabilities include both taxes and interest. Several cases comprise a sizeable share of these liabilities.

TJX Companies v. Commissioner of Revenue ("TJX I"), Appeals Court. In *TJX I*, the taxpayer challenged certain assessed corporate excise taxes and the Commissioner's application of the sham transaction doctrine to various deductions claimed by TJX on account of purported royalty and interest payments to related, out-of-state corporations. According to the statement of agreed facts submitted to the Appellate Tax Board in *TJX I*, the direct amount in dispute, exclusive of interest, was approximately \$9.8 million. The Board decided *TJX I* in favor of the Commissioner, and the taxpayer appealed. The Appeals Court largely affirmed the decision of the Appellate Tax Board in an unpublished decision dated April 3, 2009. Subsequently, the Supreme Judicial Court denied TJX Companies' application for further appellate review.

TJX Companies v. Commissioner of Revenue ("TJX II"), Appeals Court. In *TJX II*, the taxpayer is challenging a tax liability of approximately \$18 million (including interest), upheld by the Appellate Tax Board and arising from the Commissioner's disallowance of deductions for various royalty payments and interest taken in connection with transactions between several subsidiaries of the taxpayer. Whether the Appeals Court's decision in *TJX I* should control the ultimate decision here is the principal issue in *TJX II*. The *TJX II* appeal is now fully briefed and oral argument is scheduled for June 8, 2010.

Feeney, et al. v. Dell, Inc. v. Commissioner of Revenue, Middlesex Superior Court. The plaintiffs, a putative class of Massachusetts consumers who purchased Dell computers between 1995 and 2006, brought suit against Dell seeking a declaration that Dell wrongfully collected (and remitted to the Commissioner) sales tax upon service contracts that were purchased at the same time consumers purchased personal computers from Dell. (The computers themselves were not subject to sales tax because Dell, at that time, had no physical presence in Massachusetts.) The Supreme Judicial Court ruled that Dell could not be liable under Chapter 93A (and therefore be forced to pay treble damages) for collecting taxes that it believed, in good faith, were due; the Court, however, let the declaratory action go forward. Dell has now filed a third-party complaint against the Commissioner, seeking a declaration that the taxes were wrongfully collected and should be paid back. The Superior Court now has under advisement the Commissioner's motion to dismiss the third-party action, premised on the ground that Dell must first exhaust its administrative remedies. (Dell's request for an abatement was denied by the Commissioner; Dell then filed abatement petitions with the Appellate Tax Board, seeking abatement of all sales taxes paid and remitted on Dell service contracts during the period at issue.) If successful on all of its claims, Dell argues that it is entitled to an abatement of approximately \$27.8 million in previously paid tax (including interest that has accrued since dates of payment). The Feeney plaintiffs have estimated that approximately \$40 million in sales tax was collected and should be returned to purchasers. At this time, neither the Commissioner nor the Attorney General ventures any opinion as to Dell's likelihood of recovery.

DIRECTV, Inc. v. Commonwealth of Massachusetts Department of Revenue, Suffolk Superior Court. In a lawsuit filed in early 2010, DIRECTV claims that the excise on the sale of direct broadcast satellite services to subscribers or customers in the Commonwealth (enacted by Mass. St. 2009, c. 27, sec. 61 and 150) violates the Commerce Clause of the United States Constitution and the equal protection clauses of the United States and Massachusetts Constitution. Although the suit is only in its incipient stage, the potential refund of taxes collected under the statute may exceed \$10 million for each tax year. In mid-March, 2010, the Commonwealth served a motion to dismiss the complaint for failure to exhaust administrative remedies.

Vodafone Americas, Inc. v. Commissioner of Revenue, Appellate Tax Board. These five docket numbers cover the years 2000 to 2008 for two entities that owned an interest in a partnership doing business in the Commonwealth as Verizon Wireless. For the first three years, the partnership was owned through a tiered ownership structure of pass-through entities. The Commissioner claims that nexus is appropriate in these years. For the next six years, one of the entities in the ownership chain was a Bermuda corporation. The partner (Vodafone) is claiming that the corporation should pay tax on its income, while the corporation, as a disregarded entity, is filing a return (PS-1, for utilities) that indicates that its shareholder, a partnership, is flowing all income up to the partners. The issue is which entity is properly subject to tax on the income in this case. An additional issue concerns the sourcing of receipts for services in the numerator of the sales factor based upon where the company incurred the costs of performing the income-producing activity that gave rise to those receipts. The case has been set for a status conference on June 16, 2010, with a discovery completion date scheduled for September, 2010, and a trial date scheduled for October, 2010. Should Vodafone prevail on all issues the potential loss to the Commonwealth is estimated at approximately \$44 million.

Other Revenues

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et. al. (2003 NPM Adjustment) This matter arises under the Tobacco Master Settlement Agreement (“MSA”) entered into in 1998, that settled litigation and claims by the Commonwealth and 45 other states, DC, Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Marianas (collectively the “States”), against the major tobacco manufacturers. Under the MSA, payments made by the Original Participating Manufacturers (“OPMs”) and Subsequent Participating Manufacturers (collectively the Participating Manufacturers or “PMs”) are subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer (“NPM”) Adjustment, which can be triggered if the OPMs suffer a specified market share loss as compared to the OPMs’ market share during the base year 1997. Because the OPMs did suffer the requisite market share loss in 2003, the OPMs are seeking to reduce, by \$1.1 billion (or 18.6%), the \$6.2 billion payment they made to the States for 2003. Under the MSA, a nationally recognized economic firm selected jointly by the States and the OPMs (hereafter the “Firm”) must make a determination that “the disadvantages experienced” by the PMs as a result of complying with the MSA were “a significant factor contributing to the Market Share Loss” for 2003. Even if such a determination is made, the States can still avoid the \$1.1 billion adjustment if it is determined that the States “diligently enforced” their individual NPM Escrow Statutes. The Significant Factor Determination (SFD) proceeding got underway in June, 2005. The Firm issued its final determination on March 27, 2006 and found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs’ market share loss in 2003. Immediately following the Firm’s determination, the OPMs requested that the Independent Auditor issue an adjustment to their April, 2006 annual MSA payment in the amount of \$1.1 billion which would have reduced the initial 2006 payout to the Commonwealth by approximately \$45 million to \$50 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the States had diligently enforced their escrow statutes during 2003. Philip Morris paid its entire April, 2006 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment which reduced the initial 2006 payout to the Commonwealth by approximately \$30 million.

On April 18, 2006, upon the PMs’ withholding of the payment due April 17, 2006, the Commonwealth filed an emergency motion in Middlesex County Superior Court seeking immediate payment of the disputed amount and a judicial declaration that the Commonwealth diligently enforced its escrow statute during 2003. The PMs filed a motion to compel arbitration. On June 22, 2006, the Superior Court allowed the PMs’ motion to compel arbitration of the diligent-enforcement dispute and dismissed the Commonwealth’s complaint. The Commonwealth appealed the Superior Court’s order, and the Supreme Judicial Court allowed its application for direct appellate review. On April 23, 2007, the Supreme Judicial Court affirmed the Superior Court’s order dismissing the Commonwealth’s complaint and compelling arbitration of the diligent-enforcement dispute. The Supreme Judicial Court did not resolve the merits of the diligent-enforcement dispute, leaving that determination to a panel of arbitrators selected in accordance with the terms of the MSA.

If the Commonwealth prevails in establishing that it diligently enforced its NPM escrow statute during 2003, then it will be immune from any potential NPM adjustment that the Independent Auditor may be required to make, and the approximately \$30 million in withheld payments will have to be released to the Commonwealth. If, on the other hand, the Commonwealth does not prevail, future MSA payments to the Commonwealth would be reduced by an amount yet to be determined, but not exceeding the full amount of the state’s 2003 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

(2004 NPM Adjustment) The SFD proceeding for a 2004 NPM Adjustment commenced in May 2006. Because the OPMs did suffer the requisite market share loss in 2004, they are seeking to reduce, by approximately \$1.1 billion, the MSA payments they made to the States for 2004 sales. In February 2007, the Firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs’ 2004 market-share loss. Immediately following the Firm’s determination, the OPMs requested that the Independent Auditor issue an adjustment to their April, 2007 annual MSA payment in the amount of \$1.1 billion, which would have reduced the initial 2007 pay-out to the Commonwealth by approximately \$45 million to \$50 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the States had diligently enforced their escrow statutes during 2004. Philip Morris paid its entire April 2007 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2007 payout to the Commonwealth by approximately \$30 million. Consistent with the procedures outlined

above, the States can avoid the 2004 NPM Adjustment if it is determined that the States diligently enforced their individual NPM Escrow Statutes. If the Commonwealth does not prevail, future MSA payments to the Commonwealth would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2004 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

(2005 NPM Adjustment) The SFD proceeding for a 2005 NPM Adjustment commenced in May 2007. Because the OPMs did suffer the requisite market share loss in 2005, they are seeking to reduce, by approximately \$709 million, the MSA payments they made to the states for 2005 sales. In February 2008, the Firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2005 market-share loss. Immediately following the Firm's determination, the OPMs requested that the Independent Auditor issue an adjustment to their April 2008 annual MSA payment in the amount of \$709 million, which would have reduced the initial 2008 pay-out to the Commonwealth by approximately \$28 million to \$30 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the states had diligently enforced their escrow statutes during 2005. Philip Morris paid its entire April 2008 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2008 payout to the Commonwealth by approximately \$21 million. Consistent with the procedures outlined above, the States can avoid the 2005 NPM Adjustment if it is determined that the States diligently enforced their individual NPM Escrow Statutes. If the Commonwealth does not prevail, future MSA payments to the Commonwealth would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2005 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

(2006 NPM Adjustment) The SFD proceeding for a 2006 NPM Adjustment commenced in May 2008. Because the OPMs did suffer the requisite market share loss in 2006, they are seeking to reduce, by approximately \$611 million, the MSA payments they made to the States for 2006 sales. In March, 2009, the Firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2006 market-share loss. As in past years, it is anticipated that one or more of the OPMs will withhold a portion of their payments due on April 15, 2009, to account for the 2006 NPM Adjustment. This withholding could reduce the Commonwealth's anticipated payment by approximately \$24 million or less, depending on how many OPMs withhold payments. Consistent with the procedures outlined above, the States can avoid the 2006 NPM Adjustment if it is determined that the States diligently enforced their individual NPM escrow statutes. If the Commonwealth does not prevail, future MSA payments to the Commonwealth would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2006 MSA payment, depending upon the outcome of similar NPM proceedings against other States.

In January, 2009 the Commonwealth and other settling states entered into an agreement on arbitration with the OPMs. Broadly stated, the agreement on arbitration provides for a national arbitration proceeding to resolve the ongoing NPM adjustment disputes. As consideration for the states' assent to this agreement, the OPMs agreed, among other things, to release the funds withheld from their April, 2008 MSA payments in connection with the 2005 NPM adjustment dispute. Notwithstanding this release of funds, the OPMs continue to contest the states' diligent enforcement of their escrow statutes. Nevertheless, as a result of this agreement, on February 26, 2009, the Independent Auditor released approximately \$21.8 million in withheld 2005 MSA payments to the Commonwealth. Philip Morris paid its entire April 2009 annual Tobacco Master Settlement Agreement ("MSA") payment, but (as anticipated) R.J. Reynolds Tobacco Co. and Lorillard Tobacco Co. withheld their portion of the NPM Adjustment, which reduced the initial 2009 payout to the Commonwealth by approximately \$22 million. The parties are still selecting arbitrators to hear the diligent enforcement claims. Each party has appointed one arbitrator. The two-party appointed arbitrators are in the process of selecting the third neutral arbitrator under the terms of the parties' Agreement Regarding Arbitration and panel formation agreement. The full panel is expected to be in place by the end of August, 2010.

Grand River Enterprises Six Nations, Ltd. v. William Pryor, et al., United States District Court, New York. This case arises out of a challenge to the Tobacco Master Settlement Agreement ("MSA") that was initiated in 2002 by a group of companies that manufacture, import or distribute cigarettes manufactured by tobacco companies not parties to the MSA, otherwise called Non-Participating Manufacturers ("NPMs"). These NPMs sued 31 Attorneys General, including the Attorney General of the Commonwealth, alleging that the MSA, the States' escrow statutes, and NPM enforcement actions violate the federal constitution and federal law. More specifically, the plaintiffs alleged that the States' escrow and certification statutes violate Section 1 of the Sherman Antitrust Act, are

preempted by the Federal Cigarette Labeling and Advertising Act, and violate the dormant commerce clause of the United States Constitution. In April, 2006, the States filed a petition for *certiorari* asking the United States Supreme Court to review whether the District Court has jurisdiction over the defendants. This petition was denied in October, 2006. Grand River also sought to preliminarily enjoin enforcement of state escrow statutes against it, but this motion was denied and the denial affirmed by the U. S. Court of Appeals for the Second Circuit. Plaintiffs are seeking a final judgment that the MSA is illegal, and such a decision could negatively affect the billions of dollars in future payments to the States anticipated under the MSA. Discovery is complete. On April 27, 2010, the Court heard oral argument on the parties' cross motion for Summary Judgment and has taken the matter under advisement.

Sandra Murphy, et al. v. Massachusetts Turnpike Authority, Middlesex Superior Court. Plaintiffs filed suit against the Turnpike Authority on behalf of a purported "class" consisting of all toll payers within the Metropolitan Highway System ("MHS"). The plaintiffs claim that the use of toll money collected on some parts of the MHS to fund operations, maintenance, and tax debt service for other parts of the MHS (specifically, the Central Artery) is an unconstitutional tax and they seek an injunction and damages. The plaintiffs filed a motion seeking a preliminary injunction prohibiting the Turnpike Authority from spending any MHS tolls on the "non-tolled segments" of the MHS for the duration of the case. The Superior Court denied that motion. The Turnpike Authority filed a Motion to Dismiss, seeking to dismiss all counts of the Third Amended Complaint. A hearing on the Turnpike Authority's motion was held on October 15, 2009. The Court took the motion under advisement and has not yet rendered its decision. In the event the motion were denied and the plaintiffs ultimately prevailed, the extent of the impact on the treasury of the Commonwealth cannot now be accurately estimated.

Carol Surprenant v. Massachusetts Turnpike Authority, Massachusetts Port Authority, and Massachusetts Department of Transportation. United States District Court. Plaintiff originally sued the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort) on behalf of a purported "class" consisting of all toll-payers at the Tobin Memorial Bridge and the Sumner and Ted Williams Tunnels who use E-Z Pass or Fast Lane transponders but do not qualify for the so-called "Resident Discount Programs." The plaintiff claims that the "Resident Discount Programs" are unconstitutional. The MTA and MassPort filed a motion to dismiss the complaint. On March 4, 2010, the court allowed, in part, their motion to dismiss under the federal Privileges and Immunities Clause and denied it, in part, as to the claim under the federal Commerce Clause. The Court authorized a 90 day period for discovery, followed by supplemental briefing. On April 5, 2010, plaintiff filed her first amended complaint, adding the Massachusetts Department of Transportation ("MassDOT") as a defendant. MassDOT answered the amended complaint by denying all claims, and by asserting that the claims against it are barred by the Commonwealth's sovereign immunity, and by the fact that neither the Commonwealth nor MassDOT is subject to suit under 42 U.S.C. § 1983.

Environment

Wellesley College v. Commonwealth, Suffolk Superior Court. Wellesley College has threatened to seek contribution from the Commonwealth for costs related to the clean-up of environmental contamination on the Wellesley College campus and adjacent areas including Lake Waban. In September, 2001, the Court entered judgment incorporating a partial settlement between the parties, under which the College will fund a clean-up of hazardous materials at the campus and the northern shoreline of Lake Waban that is expected to cost approximately \$40 million. The judgment has since been amended by agreement of the parties and with approval of the court. Under the terms of the partial settlement and judgment, the Commonwealth has reimbursed the college approximately \$1.1 million (approximately 2.5% of total clean-up costs) from an escrow account after the Department of Environmental Protection (DEP) determined that a portion of the Lake Waban shoreline clean-up was properly performed. Other issues that may lead to counterclaims by the College against the Commonwealth or its agencies include (1) groundwater contamination, estimated to cost \$2 million or more depending on future decisions by DEP on appropriate clean-up; and (2) clean-up of Lake Waban itself, for which DEP has now approved a temporary solution, reviewable every five years. (If a full clean-up of the lake is required in the future, it could cost up to \$100 million.)

In re Massachusetts Military Reservation (pre-litigation). The Commonwealth, through the Executive Office of Environmental Affairs, the Department of Environmental Protection and the Attorney General's office, were engaged in discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of the Interior and the National Oceanic and Atmospheric Administration, and private

contractors regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal Trustees and private contractors claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars.

The Arborway Committee v. Executive Office of Transportation, et al., Appeals Court. The plaintiff, a volunteer group of residents and merchants in Jamaica Plain, filed a complaint in February, 2007, seeking to compel the Commonwealth to restore electric light-rail service between Heath Street and the Forest Hills station in Boston. Green Line service along this route - known as the Arborway Line - was discontinued in 1984. The plaintiff claims that the Commonwealth's failure to restore the Arborway Line is a breach of a Memorandum of Understanding entered into between the Commonwealth and the Conservation Law Foundation in 1990. The Superior Court granted the Commonwealth summary judgment on statute of limitations grounds, and the plaintiffs have appealed. The matter is in the process of being briefed before the Appeals Court; an argument date has not yet been set.

Boston Harbor Clean-Up. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, e.g., *United States v. Metropolitan District Commission*; *Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The total cost of construction of the wastewater facilities required under the Court's order, not including combined sewer overflow (CSO) costs, was approximately \$3.8 billion. The MWRA anticipates spending \$964 million for CSO projects going forward. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment. The cost of initial construction of water treatment facilities required under the federal district court's order has now amounted to approximately \$4.5 billion through December, 2009. Going forward, the Massachusetts Water Resources Authority anticipates spending an additional \$230 million on remaining construction work on CSO projects. These figures do not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system upgrades, retrofits, and replacements.

United States v. South Essex Sewerage District, United States District Court. This is another federal Clean Water Act case in which the Commonwealth faces the same type of potential liability as above.

Other

Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc., d/b/a Perini - Kiewit - Cashman Joint Venture v. Commonwealth. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Ted Williams Tunnel project. Plaintiffs have asserted claims in excess of \$130 million. These claims are at various stages of resolution, including the Superior Court and the Central Artery Tunnel Project Dispute Review Board ("DRB") panel. The DRB has recently issued decisions on some of the claims, awarding plaintiffs \$55 million on claims of \$73.8 million. Those decisions are now the subject of further court proceedings. Plaintiffs also still have in excess of \$60 million in claims pending.

In re: Historic Renovation of Suffolk County Courthouse. This matter is now in suit, captioned *Suffolk Construction Co. and NER Construction Management, Inc. d/b/a Suffolk/NER v. Commonwealth of Massachusetts Division of Capital Asset Management*, Suffolk Superior Court. The general contractor for this historic renovation project sued the Division of Capital Asset Management claiming that it is owed additional amounts for extra costs and delays associated with the project. Total exposure is approximately \$60 million (\$16 million in claims of the general contractor and \$44 million in pass-through claims from subcontractors).

Local 589, Amalgamated Transit Union, et al. v. Commonwealth of Massachusetts, et al., Suffolk Superior Court. In a class action complaint filed in September, 2009, ten separate union organizations and numerous MBTA employees and retirees challenge various provisions in the recently enacted transportation reform legislation that alter the requirements for employee pension eligibility, transfer the MBTA employees' and retirees' health insurance coverage to Group Insurance Commission plans, increase the percentage of health insurance premiums to be paid by MBTA employees and retirees, and foreclose collective bargaining of group insurance coverage. These changes are in each instance prospective, do not apply to the pension and health insurance provisions in currently existing collective bargaining agreements, and when ultimately implemented are anticipated to result in projected annual savings of \$30 million to \$40 million associated with the transition of the MBTA employee/retiree benefits to state-controlled insurance plans. Plaintiffs claim that the changes effected by the statute violate federal labor protective agreements, unconstitutionally impair union and other contracts, and effect an unconstitutional taking of property. On December 24, 2009, the Superior Court denied the plaintiffs' request for a preliminary injunction regarding the first round of health insurance transfers, which then took place on January 1, 2010. Both the Commonwealth and the MBTA have filed answers, and the case is now in the discovery phase. The parties served cross-motions for summary judgment in May 2010 and are currently completing matters associated with those motions. It is anticipated that the cross-motions will be filed in mid-June and that the Superior Court will then hear the cross-motions for summary judgment before the next round of health insurance transfers, which will occur on July 1, 2010.

OPEIU, Local 6 and the Massachusetts Trial Court, American Arbitration Association. On May 7, 2010, the Trial Court received an arbitrator's award on two grievances involving the nonpayment of negotiated salary increases for bargaining units of court clerical and professional employees. Despite the lack of appropriations by the Legislature, the arbitrator concluded that the Trial Court was obligated to pay increases in the second and third years of a collective bargaining agreement covering the period July 1, 2007, through June 30, 2010, because the Legislature had funded a wage increase for the first year of the agreement. The estimated cost of implementing the retroactive portion of the agreement is approximately \$30.8 million. The estimated costs going forward for fiscal 2011 are approximately \$18 million.

Howe v. Town of North Andover, et al., United States District Court. A lawsuit was filed in late January, 2010, naming twenty Massachusetts State Police officers or employees and three Essex Sheriff officers or employees as defendants. The lawsuit arises out of a death at a sobriety checkpoint allegedly organized and/or staffed by the Massachusetts State Police, Essex Sheriff's Department and the North Andover Police Department. The lawsuit alleges wrongful death, civil rights violations, negligence and other claims. At this time no determination has been made as to the merits of the claims against the defendants.

MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of general and special laws and of other documents set forth or referred to in this Information Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

This Information Statement contains certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the Commonwealth and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the Commonwealth and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates" and others.

All estimates and assumptions in this Information Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Information Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

Neither the Commonwealth's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The information, estimates and assumptions and expressions of opinion in this Information Statement are subject to change without notice. Neither the delivery of this Information Statement nor any sale made pursuant to any official statement of which this Information Statement is a part shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth or its agencies, authorities or political subdivisions since the date of this Information Statement, except as expressly stated.

CONTINUING DISCLOSURE

The Commonwealth prepares its Statutory Basis Financial Report and its Comprehensive Annual Financial Report with respect to each fiscal year ending June 30. The Statutory Basis Financial Report becomes available by October 31 of the following fiscal year and the Comprehensive Annual Financial Report becomes available in January of the following fiscal year. Copies of such reports and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, One Ashburton Place, Room 909, Boston, Massachusetts 02108. The financial statements are also available at the Comptroller's web site located at <http://www.mass.gov/osc> by clicking on "Financial Reports/Audits."

On behalf of the Commonwealth, the State Treasurer will provide to the Municipal Securities Rulemaking Board (MSRB), no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth and has not failed in the last six years to comply with its continuing disclosure undertakings with respect to its special obligation debt and federal grant anticipation notes. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth's special obligation debt and for the Commonwealth's federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the Nationally Recognized Municipal Securities Information Repositories and the Municipal Securities Rulemaking Board.

The Department of the State Auditor audits all agencies, departments and authorities of the Commonwealth at least every two years. Copies of audit reports may be obtained from the State Auditor, State House, Room 229, Boston, Massachusetts 02133.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Colin MacNaught, Assistant Treasurer for Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Karol Ostberg, Director of Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

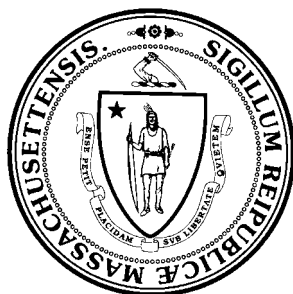
THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Timothy P. Cahill
Timothy P. Cahill
Treasurer and Receiver-General

By /s/ Jay Gonzalez
Jay Gonzalez
Secretary of Administration and Finance

June 8, 2010

**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT SUPPLEMENT

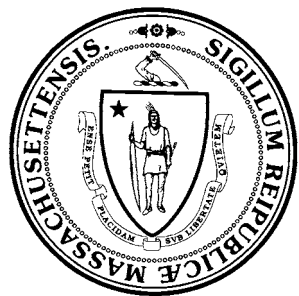
Dated November 10, 2010

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TABLE OF CONTENTS
INFORMATION STATEMENT SUPPLEMENT DATED NOVEMBER 10, 2010

RECENT DEVELOPMENTS	A-1
Fiscal 2010.....	A-1
Fiscal 2011.....	A-2
Cash Flow	A-5
COMMONWEALTH REVENUES AND EXPENDITURES	A-8
Statutory Basis Distribution of Budgetary Revenues and Expenditures.....	A-8
State Taxes.....	A-9
Federal and Other Non-Tax Revenues.....	A-10
Employee Benefits.....	A-10
SELECTED FINANCIAL DATA.....	A-11
LONG-TERM LIABILITIES	A-12
Contingent Liabilities	A-12
LEGAL MATTERS	A-16
MISCELLANEOUS	A-19
CONTINUING DISCLOSURE.....	A-19
AVAILABILITY OF OTHER FINANCIAL INFORMATION	A-20

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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Timothy P. MurrayLieutenant Governor
William F. Galvin.....Secretary of the Commonwealth
Martha Coakley.....Attorney General
Timothy P. CahillTreasurer and Receiver-General
A. Joseph DeNucci.....Auditor

LEGISLATIVE OFFICERS

Therese Murray.....President of the Senate
Robert A. DeLeo.....Speaker of the House

THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT SUPPLEMENT

November 10, 2010

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated June 8, 2010 (the “June Information Statement”) is dated November 10, 2010 and contains information which updates the information contained in the June Information Statement. The June Information Statement has been filed with the Municipal Securities Rulemaking Board. This Supplement and the June Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through November 10, 2010. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the June Information Statement.

The June Information Statement, as supplemented hereby, includes three exhibits. Exhibit A is the Statement of Economic Information as of October 1, 2010, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are, respectively, the Commonwealth’s Statutory Basis Financial Report for the year ended June 30, 2010, reviewed by independent auditors, and the Commonwealth’s Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2009. The Commonwealth’s independent auditor has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Supplement is a part. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with the Municipal Securities Rulemaking Board. The financial statements are also available at the web site of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Publications and Reports” and then “Financial Reports.”

RECENT DEVELOPMENTS

Fiscal 2010

On October 31, 2010, the Commonwealth published the fiscal 2010 statutory basis financial report, which shows a consolidated net surplus of approximately \$21.3 million before a \$10 million transfer for life sciences funding required by the Commonwealth’s fiscal 2011 budget.

Fiscal 2010 collections totaled \$18.544 billion, an increase of approximately \$284 million, or 1.6%, over fiscal 2009. The following table shows monthly tax collections for fiscal 2010 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2010 that are dedicated to the Massachusetts Bay Transportation Authority (“MBTA”) and to the Massachusetts School Building Authority (“MSBA”).

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Fiscal 2010 Tax Collections (in millions)

						Tax Collections: Net of MBTA and MSBA
<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion (2)</u>	<u>MSBA Portion</u>	<u>MSBA</u>
July	\$ 1,250.6	\$ (131.1)	(9.5)%	\$ 57.6	\$ 54.7	\$ 1,138.4
August	1,296.5	(12.7)	(1.0)	54.4	51.7	1,190.4
September	1,765.9	(333.6)	(15.9)	79.8	47.2	1,638.9
October	1,224.9	74.8	6.5	53.8	51.1	1,120.0
November	1,288.7	32.4	2.6	50.5	48.0	1,190.2
December	1,885.9	23.4	1.3	87.4	48.2	1,750.3
January	1,845.1	54.5	3.0	61.9	58.8	1,724.4
February	1,002.7	49.0	5.1	46.0	43.7	913.0
March	1,624.9	21.7	1.4	83.9	45.3	1,495.8
April	1,747.6	(31.6)	(1.8)	56.0	53.2	1,638.4
May	1,574.3	291.7	22.7	53.0	50.3	1,471.1
<u>June</u>	2,036.7	245.8	13.7	82.8	53.1	1,900.8
Total (1)	<u>\$ 18,543.7</u>	<u>\$ 284.4</u>	<u>1.6%</u>	<u>\$767.1</u>	<u>\$ 605.2</u>	<u>\$ 17,171.4</u>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Includes adjustment of \$30.2 million on the account of the first quarter, \$36.7 million on the account of the second quarter, \$36.2 million on account of the third quarter and an anticipated \$26.9 million on account of the fourth quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The tax revenue increase of \$284.4 million from fiscal 2009 is attributable in large part to an increase of approximately \$743 million, or 19.2%, in sales and use tax collections, an increase of approximately \$21 million, or 1.0%, in corporate and business collections, offset by a decrease of approximately \$473 million, or 4.5%, in income tax collections. The tax revenue figures from the Department of Revenue indicate that fiscal 2010 tax collections were \$84 million above the revised fiscal 2010 estimate of \$18.460 billion announced by the Secretary of Administration and Finance on January 7, 2010. See the June Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Tax Revenue Forecasting.”

Fiscal 2011

On June 30, 2010 the Governor approved the fiscal 2011 budget, which totaled \$27.570 billion. The Governor vetoed approximately \$457 million from the budget that was enacted by the Legislature. Such vetoes included \$372 million of appropriations funded from additional federal Medicaid matching funds (FMAP) that were assumed in the budget, but which the United States Congress had not yet approved. (As described below, the FMAP extension legislation was subsequently approved.) A six-month extension of the enhanced FMAP rate was anticipated in the Governor’s fiscal 2011 budget proposals filed in January, as well as in both the House and Senate versions of the budget. See the June Information Statement under the heading “FISCAL 2010 AND FISCAL 2011 – Fiscal 2011 Budget Proposals.” In addition, the budget enacted by the Legislature included \$54 million in anticipated federal assistance for needy families that has not yet been approved by Congress. The budget enacted by the Legislature also included approximately \$17 million in Lottery revenues in excess of revenue projections given by the State Lottery Commission. The Governor has vetoed certain funding in the fiscal 2011 budget to solve for these anticipated exposures.

The fiscal 2011 budget includes a \$100 million withdrawal from the Stabilization Fund, the use of fiscal 2011 interest earnings on the Stabilization Fund and an additional \$95 million in savings by suspending the statutory carryover of the General Fund balance into fiscal 2010. Taking all that into account, the Stabilization Fund is projected to have a \$556 million balance at the end of fiscal 2011. The fiscal 2011 budget also relies on \$809 million in remaining available federal funds under the American Recovery and Reinvestment Act of 2009.

On August 5, 2010, the Governor signed into law legislation relating to economic development that includes four sets of provisions affecting tax revenues:

- The legislation extends the net operating loss carry-forward period for specified categories of taxpayers (generally including business corporations but not financial institutions or utility corporations) filing under the corporate excise tax from five years to 20 years, for losses sustained in tax years beginning in calendar year 2010. The Department of Revenue estimates that the static revenue loss under this provision will be approximately \$4.7 million in fiscal 2016, \$12.6 million in fiscal 2017, \$19.8 million in fiscal 2018, \$25.5 million in fiscal 2019, and \$30.3 million in fiscal 2020. The Department of Revenue estimates that the static revenue loss under this provision will increase annually until the tax law change is fully phased in by fiscal 2031, at which point the annual revenue loss will be approximately \$92.2 million.
- The legislation institutes a reduced 3% capital gains tax rate under the individual income tax for sale of investments in certain Massachusetts-based start-ups. The new rate takes effect for tax years beginning on or after January 1, 2011 with respect to investments in corporations incorporated on or after January 1, 2011, but a three-year holding period is required. The Department of Revenue estimates that this provision will result in a static revenue loss of \$0.1 million in fiscal 2014, \$0.7 million in fiscal 2015, \$2.3 million in fiscal 2016, \$4.0 million in fiscal 2017, and \$5.7 million in fiscal 2018. The Department of Revenue estimates that the static revenue loss under this provision will increase annually until fiscal 2022, at which point the annual revenue loss will be approximately \$13.5 million.
- The legislation provides for the exclusion of income of a non-U.S. corporation from a “water’s edge” combined report under the corporate excise tax if the income is not subject to U.S. federal income tax by reason of an exemption in a federal bi-lateral treaty, effective for tax years beginning January 1, 2009. Other income of a non-U.S. corporation that is derived from U.S. sources (as well as income effectively connected with a U.S. trade or business) would continue to be included in the combined group’s Massachusetts income tax base in accordance with the combined reporting statute and regulations, including in situations where a federal treaty reduces the federal tax rate on such income but does not completely exempt the income from tax. The Department of Revenue estimates that this provision will result in a revenue reduction or revenue forgone of up to approximately \$28 million annually, with a potentially larger revenue loss in fiscal 2011 due to the retroactive nature of the change. See the June Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Corporate Tax Reform.*”
- The legislation established a sales tax holiday on August 14-15, 2010. All non-business retail sales of \$2,500 or less were exempt from the Massachusetts sales tax, excluding telecommunications services, motor vehicles, meals, utilities, motor boats, and tobacco products. The Department of Revenue estimates that the sales tax holiday will result in a static revenue loss of approximately \$20 million in fiscal 2011. See the June Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes ; *Sales and Use Tax.*”

On August 10, 2010, the President signed a \$26 billion state-aid package that would provide additional federal funding to the states for Medicaid and teachers’ pay. This measure extends the FMAP rate originally set to expire December 31, 2010 to June 30, 2011, which is expected to provide approximately \$449 million in additional Medicaid reimbursement to the Commonwealth. The state-aid package is also expected to provide approximately \$204 million to the Commonwealth to retain or hire teachers at local school districts.

On September 8, 2010, the Commonwealth novated its swap agreement with Ambac Financial Services, LLC initially entered into with respect to the Commonwealth’s General Obligation Refunding Bonds, 1997 Series B. As part of the novation, Ambac Financial Services, LLC transferred all of its rights, liabilities, duties and obligations with respect to such swap to SMBC Capital Markets, Inc. The Commonwealth pays a fixed rate of 4.659% to SMBC and SMBC pays the Commonwealth a variable rate equal to the SIFMA Index.

On October 15, 2010 the Governor approved supplemental budget legislation that included approximately \$419 million in supplemental appropriations in order to preserve program funding for safety net services and public safety functions. This additional funding was supported with \$399 million of the \$449 million in estimated

additional federal revenues to be provided to the Commonwealth in fiscal 2011 from the August 2010 extension of the FMAP rate through June 30, 2011. This leaves \$50 million in such revenues currently unexpended. The legislation also eliminated the planned fiscal 2011 withdrawal of \$100 million from the Stabilization Fund and authorized the Secretary of Administration and Finance to forego the use of approximately \$95 million in additional reserves assumed from the suspension of the “statutory carry forward” in fiscal 2011. The Secretary of Administration and Finance currently does not plan to use the \$95 million in reserves in fiscal 2011. Of the \$419 million in supplemental funding, approximately \$327 million was provided for the MassHealth program. The Commonwealth receives additional federal Medicaid reimbursements for these expenditures, leaving the “net” total amount of supplemental funding at approximately \$203 million.

Taking into account all appropriations to date, all cost and revenue exposures, and all anticipated savings and unbudgeted revenue, the Executive Office for Administration and Finance projects that the Commonwealth’s fiscal 2011 budget is in balance. The Executive Office for Administration and Finance’s current projection for fiscal 2011 assumes that there could be up to \$500 million in “gross” additional appropriations (up to \$277 million of which would require state funding). These additional appropriations, to the extent necessary, will be funded from existing resources, and would possibly be needed as a result of increased utilization in certain case-load driven accounts, including the MassHealth program, the emergency assistance shelter program and the Commonwealth’s public defender program. The Executive Office for Administration and Finance is working with the relevant state agencies to manage and mitigate these cost pressures to the greatest extent possible.

Preliminary tax revenues for the first four months of fiscal 2011, ended October 31, 2010, totaled approximately \$6.096 billion, an increase of approximately \$557.9 million, or 10.1%, over the same period in fiscal 2010. The following table shows the tax collections for the first four months of fiscal 2011 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in the same month that are dedicated to the MBTA and the MSBA.

Fiscal 2011 Tax Collections (in millions)(1)

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion(3)</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,352.7	\$102.1	8.2%	\$ 60.3	\$ 60.3	\$1,232.1
August	1,385.6	89.1	6.9	55.3	55.2	1,275.0
September	2,015.1	249.2	14.1	76.2	51.9	1,887.1
October	<u>1,342.3</u>	<u>117.4</u>	<u>9.6</u>	<u>55.3</u>	<u>55.3</u>	<u>1,231.7</u>
Total (2)	<u>\$ 6,095.7</u>	<u>\$557.9</u>	<u>10.1%</u>	<u>\$247.1</u>	<u>\$222.8</u>	<u>\$5,625.8</u>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

(2) Totals may not add due to rounding.

(3) Includes adjustments of \$24.3 million on account of the first quarter.

The year-to-date tax revenue increase of approximately \$557.9 million through October 31, 2010 from the same period in fiscal 2010 is attributable in large part to an increase of approximately \$169.5 million, or 6.2%, in withholding collections, an increase of approximately \$44.2 million, or 11.7%, in income estimated payments, a decrease of approximately \$52.0 million, or 24.9%, in income refunds, an increase of approximately \$216.5 million, or 14.7%, in sales and use tax collections, and an increase of approximately \$87.4 million, or 19.8%, in corporate and business tax collections. Preliminary year-to-date fiscal 2011 tax collections (through October) were approximately \$414 million above the benchmark estimate, which is based on the fiscal 2011 tax revenue estimate of \$19.078 billion (which is equal to the \$19.050 billion consensus estimate plus \$48 million in fiscal 2011 tax initiatives authorized in the fiscal 2011 general appropriations act and less \$20 million in the estimated sales tax revenue loss resulting from the August sales tax holiday). See the June Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Tax Revenue Forecasting; *Fiscal 2011*.”

Cash Flow

On August 31, 2010, the State Treasurer and the Secretary of Administration and Finance released cash flow statements for fiscal 2010 and fiscal 2011. Fiscal 2010 ended with an overall increase in the non-segregated cash balance from \$805.3 million to \$844.2 million, as compared to a projection of \$860.2 million in the June 3, 2010 cash flow forecast. See the June Information Statement under the heading “FISCAL 2010 AND FISCAL 2011 – Cash Flow.”

The fiscal 2011 cash flow statement is based upon the fiscal 2011 budget signed on June 30, 2010 (including the value of all vetoes and subsequent overrides), all supplemental appropriations filed, enacted or anticipated, and all prior appropriations continued into fiscal 2011, but does not include approximately \$653.0 million in additional federal aid expected as a result of the federal state-aid package. See “RECENT DEVELOPMENTS – Fiscal 2011” herein.

The Commonwealth’s five-year capital investment plan, which is reviewed annually, calls for approximately \$2.215 billion of bonds to be issued in fiscal 2011. This amount includes \$1.625 billion in general obligation bonds issued under the bond cap and \$590.0 million of borrowing for the accelerated bridge program (which includes \$300 million of borrowing for the program carried over from prior fiscal years, as well as \$290 million in borrowing for fiscal 2011). Prior year spending of \$200 million under the accelerated bridge program bond authorization was temporarily financed with general obligation bond anticipation notes issued in July, 2010. Such notes are expected to be retired with a portion of proceeds of accelerated bridge program bonds expected to be issued in the fall of 2010. See the June Information Statement under the headings “LONG-TERM LIABILITIES – Special Obligation Debt; *Commonwealth Transportation Fund*,” “LONG-TERM LIABILITIES – Federal Grant Anticipation Notes” and “COMMONWEALTH CAPITAL INVESTMENT PLAN.” The information contained in the August 31, 2010 cash flow statement does not reflect the information contained in the five-year capital investment plan recently released by the Executive Office for Administration and Finance. See “COMMONWEALTH CAPITAL INVESTMENT PLAN” herein.

On August 26, 2010 the State Treasurer issued \$358 million in general obligation bonds under the bond cap and \$1.2 billion in revenue anticipation notes to support the state’s cash flow. The revenue anticipation notes are scheduled to mature in late April, 2011, late May, 2011 and late June, 2011. The State Treasurer also issued general obligation refunding bonds on July 29, 2010 (approximately \$120.4 million) and September 15, 2010 (approximately \$165.6 million) to refund certain Commonwealth bonds that matured on August 1, 2010, October 1, 2010 and November 1, 2010, pursuant to special legislation enacted in conjunction with the fiscal 2011 budget. Both series of refunding bonds were sold on July 23, 2010. The refunding bonds mature in 2014 and 2015.

The next cash flow statement is expected to be released on or about November 30, 2010.

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Overview of Fiscal 2010 Non-Segregated Operating Cash Flow (in millions) (1)

(as of August 31, 2010)

	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>June</u>	Total FY 2010
Opening Non-Segregated Operating Cash Balance	\$ 805.3	\$ 581.8	\$ 837.7	\$ 1,033.1	\$ 703.4	\$ 529.2	\$ 890.0	\$ 1,271.7	\$ 988.4	\$ 891.4	\$ 1,335.9	\$ 1,515.1	\$ 805.3
Operating Activities:													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	199.0	0.0	0.0	0.0	41.2	0.0	0.9	0.4	(49.0)	0.0	0.0	192.5
Total Budgetary Revenue/Inflows	1,949.0	2,435.1	2,852.1	2,294.5	2,123.1	3,070.8	2,927.6	2,245.9	3,236.9	3,111.3	3,024.4	2,123.0	31,393.6
Total Budgetary Expenditures/Outflows	2,300.5	2,252.4	3,042.8	2,300.9	2,115.7	2,931.6	1,954.4	2,237.2	3,295.5	2,206.3	1,958.6	2,688.8	29,284.8
Net Budgetary Funds	(351.5)	182.6	(190.7)	(6.4)	7.4	139.1	973.2	8.7	(58.7)	905.0	1,065.9	(565.8)	2,108.8
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	762.0	642.6	736.8	701.0	774.2	526.6	431.8	715.0	759.3	844.0	514.8	1,708.6	9,116.7
Total Non Budgetary Expenditures/Outflows	842.0	806.8	1,167.9	777.1	879.6	973.9	866.7	1,005.0	1,019.1	887.7	815.1	1,173.7	11,214.6
Net Non Budgetary Funds	(80.0)	(164.2)	(431.2)	(76.0)	(105.4)	(447.2)	(435.0)	(290.0)	(259.8)	(43.7)	(300.2)	534.9	(2,097.9)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	<u>0.5</u>	<u>3.2</u>	<u>0.7</u>	<u>2.2</u>	<u>1.6</u>	<u>1.5</u>	<u>9.7</u>	<u>1.6</u>	<u>1.6</u>	<u>1.5</u>	<u>1.3</u>	<u>17.7</u>	<u>43.1</u>
Net Operating Activities	\$ (431.1)	\$ 21.6	\$ (621.2)	\$ (80.3)	\$ (96.5)	\$ (306.6)	\$ 547.9	\$ (279.7)	\$ (316.8)	\$ 862.9	\$ 766.9	\$ (13.2)	\$ 54.0
Federal Grants:													
Total Federal Grants Revenue/Inflows	611.2	174.1	161.3	159.8	209.7	270.4	233.5	87.9	345.9	392.9	302.1	352.4	3,301.3
Total Federal Grants Expenditures/Outflows	<u>202.0</u>	<u>218.0</u>	<u>165.8</u>	<u>178.2</u>	<u>217.1</u>	<u>287.3</u>	<u>218.0</u>	<u>250.3</u>	<u>313.1</u>	<u>293.7</u>	<u>326.6</u>	<u>334.1</u>	<u>3,004.2</u>
Net Federal Grants	\$ 409.1	\$ (43.9)	\$ (4.4)	\$ (18.4)	\$ (7.4)	\$ (16.9)	\$ 15.5	\$ (162.5)	\$ 32.8	\$ 99.3	\$ (24.5)	\$ 18.3	\$ 297.1
Capital Funds:													
Total Capital Revenue/Inflows	70.0	238.3	172.9	40.1	105.6	798.6	3.5	302.6	206.7	2.1	316.1	85.0	2,341.6
Total Capital Expenditures/Outflows:	<u>271.6</u>	<u>260.0</u>	<u>269.6</u>	<u>271.1</u>	<u>175.9</u>	<u>244.4</u>	<u>185.2</u>	<u>143.7</u>	<u>169.7</u>	<u>163.8</u>	<u>164.4</u>	<u>324.9</u>	<u>2,644.3</u>
Net Capital Funds	\$ (201.6)	\$ (21.7)	\$ (96.7)	\$ (231.0)	\$ (70.3)	\$ 554.2	\$ (181.7)	\$ 159.0	\$ 37.0	\$ (161.6)	\$ 151.7	\$ (239.8)	\$ (302.7)
Financing Activities:													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	300.0	0.0	0.0	0.0	430.0	0.0	0.0	150.0	0.0	0.0	0.0	880.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	0.0	1,217.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,217.9
Total Cash Flow Financing Activities Inflows	0.0	300.0	1,217.9	0.0	0.0	430.0	0.0	0.0	150.0	0.0	0.0	0.0	2,097.9
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	300.2	0.0	0.0	300.0	0.0	0.0	0.0	0.7	280.0	0.0	881.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	355.3	435.0	436.0	1,226.3
Total Cash Flow Financing Activities Outflows	<u>0.0</u>	<u>0.0</u>	<u>300.2</u>	<u>0.0</u>	<u>0.0</u>	<u>300.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>356.0</u>	<u>715.0</u>	<u>436.0</u>	<u>2,107.3</u>
Net Financing Activities	\$ 0.0	\$ 300.0	\$ 917.7	\$ 0.0	\$ (0.0)	\$ 130.0	\$ (0.0)	\$ (0.0)	\$ 150.0	\$ (356.0)	\$ (715.0)	\$ (436.0)	\$ (9.4)
Ending Non-Segregated Operating Cash Balance	\$ 581.8	\$ 837.7	\$ 1,033.1	\$ 703.4	\$ 529.2	\$ 890.0	\$ 1,271.7	\$ 988.4	\$ 891.4	\$ 1,335.9	\$ 1,515.1	\$ 844.3	\$ 844.3

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

Overview of Fiscal 2011 Non-Segregated Operating Cash Flow (in millions) (1)

(as of August 31, 2010)

	<u>Jul</u>	<u>Aug (2)</u>	<u>Sep (2)</u>	<u>Oct (2)</u>	<u>Nov (2)</u>	<u>Dec (2)</u>	<u>Jan (2)</u>	<u>Feb (2)</u>	<u>Mar (2)</u>	<u>Apr (2)</u>	<u>May (2)</u>	<u>June (2)</u>	Total FY 2011 (2)
Opening Non-Segregated Operating Cash Balance	\$ 844.3	\$ 1,082.2	\$ 2,544.3	\$ 1,768.9	\$ 1,491.1	\$ 1,264.5	\$ 793.8	\$ 1,213.0	\$ 849.3	\$ 369.5	\$ 868.0	\$ 934.5	\$ 844.3
Operating Activities:													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0	0.0	100.0
Total Budgetary Revenue/Inflows	2,599.9	2,446.7	2,852.3	2,297.5	2,334.0	2,890.3	2,954.0	2,206.1	3,246.2	3,324.5	2,831.7	3,288.1	33,271.2
Total Budgetary Expenditures/Outflows	2,267.9	2,342.2	3,395.6	2,425.6	2,488.0	3,199.4	2,410.1	2,374.6	3,430.2	2,265.4	2,055.0	2,861.2	31,515.2
Net Budgetary Funds	332.0	104.5	(543.4)	(128.1)	(154.0)	(309.1)	543.9	(168.5)	(184.0)	1,059.1	776.7	426.9	1,756.0
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	425.2	758.1	905.1	645.5	665.8	759.2	705.6	601.6	673.6	605.0	574.5	635.5	7,954.8
Total Non Budgetary Expenditures/Outflows	935.1	784.7	1,131.1	711.1	752.4	946.2	845.6	811.8	981.9	855.4	797.5	903.5	10,456.6
Net Non Budgetary Funds	(509.9)	(26.6)	(226.0)	(65.6)	(86.6)	(186.9)	(140.0)	(210.3)	(308.4)	(250.4)	(223.0)	(268.1)	(2,501.7)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	<u>0.4</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>11.4</u>
Net Operating Activities	\$ (177.5)	\$ 79.0	\$ (768.4)	\$ (192.7)	\$ (239.5)	\$ (495.1)	\$ 405.0	\$ (377.8)	\$ (491.4)	\$ 809.7	\$ 554.6	\$ 159.9	\$ (734.3)
Federal Grants:													
Total Federal Grants Revenue/Inflows	277.8	195.0	195.0	190.0	225.0	278.0	255.0	221.0	221.0	235.0	225.0	275.0	2,792.8
Total Federal Grants Expenditures/Outflows	<u>230.2</u>	<u>200.8</u>	<u>206.1</u>	<u>214.0</u>	<u>224.5</u>	<u>278.3</u>	<u>254.5</u>	<u>222.5</u>	<u>222.5</u>	<u>230.9</u>	<u>223.5</u>	<u>281.0</u>	<u>2,791.5</u>
Net Federal Grants	\$ 47.6	\$ (5.8)	\$ (11.1)	\$ (24.0)	\$ 0.5	\$ (0.3)	\$ 0.5	\$ (1.5)	\$ (4.2)	\$ 4.1	\$ 1.5	\$ (6.0)	\$ 1.3
Capital Funds:													
Total Capital Revenue/Inflows	422.1	425.1	265.1	358.0	241.0	291.3	253.8	181.8	191.7	194.8	179.4	374.8	3,378.9
Total Capital Expenditures/Outflows:	<u>254.3</u>	<u>236.2</u>	<u>261.1</u>	<u>219.1</u>	<u>228.6</u>	<u>266.6</u>	<u>240.1</u>	<u>166.2</u>	<u>175.9</u>	<u>160.1</u>	<u>244.0</u>	<u>302.2</u>	<u>2,754.3</u>
Net Capital Funds	\$ 167.8	\$ 188.9	\$ 4.1	\$ 139.0	\$ 12.4	\$ 24.7	\$ 13.7	\$ 15.6	\$ 15.8	\$ 34.7	\$ (64.6)	\$ 72.6	\$ 624.7
Financing Activities:													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	200.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Total Cash Flow Financing Activities Inflows	200.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,400.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	0.0	200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	200.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	350.0	425.0	425.0	1,200.0
Total Cash Flow Financing Activities Outflows	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>200.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>350.0</u>	<u>425.0</u>	<u>425.0</u>	<u>1,400.0</u>
Net Financing Activities	\$ 200.0	\$ 1,200.0	\$ 0.0	\$ (200.0)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ (350.0)	\$ (425.0)	\$ (425.0)	\$ 0.0
Ending Non-Segregated Operating Cash Balance	\$ 1,082.2	\$ 2,544.3	\$ 1,768.9	\$ 1,491.1	\$ 1,264.5	\$ 793.8	\$ 1,213.0	\$ 849.3	\$ 369.5	\$ 868.0	\$ 934.5	\$ 735.9	\$ 735.9

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

COMMONWEALTH REVENUES AND EXPENDITURES

In fiscal 2010, on a statutory basis, approximately 56.7% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 28.2% of such revenues, with the remaining 15.1% provided from departmental revenues and transfers from non-budgeted funds.

Statutory Basis Distribution of Budgetary Revenues and Expenditures

The following table sets forth the Commonwealth's revenues and expenditures for fiscal 2006 through fiscal 2010 and projected revenues and expenditures for fiscal 2011.

Budgeted Operating Funds – Statutory Basis (in millions)(1)

	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Projected Fiscal 2011</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 355.6	\$ 947.2	\$ 351.3	\$ 171.5	\$ 68.9	\$122.0
Bay State Competitiveness Investment Fund	-	-	100.0	-	-	-
Transitional Escrow Fund	304.8	-	-	-	-	-
Stabilization Fund	1,728.4	2,154.7	2,335.0	2,119.2	841.3	669.8
Undesignated	<u>98.4</u>	<u>106.2</u>	<u>114.7</u>	<u>115.1</u>	<u>106.4</u>	<u>111.3</u>
Total	<u>2,487.2</u>	<u>3,208.1</u>	<u>2,901.0</u>	<u>2,405.8</u>	<u>1,016.5</u>	<u>903.1</u>
<u>Revenues and Other Sources</u>						
Alcoholic Beverages	68.9	71.0	71.2	71.9	71.0	71.6
Banks	349.9	340.9	547.8	242.6	234.9	69.2
Cigarettes	435.3	438.1	436.9	456.8	456.2	467.9
Corporations	1,390.7	1,587.6	1,512.2	1,548.6	1,600.3	1,396.9
Deeds	210.1	194.1	153.9	105.5	137.9	126.4
Income	10,483.4	11,399.6	12,483.8	10,583.7	10,110.3	10,704.1
Inheritance and Estate	196.3	249.6	254.0	259.7	221.4	225.2
Insurance	448.5	418.6	417.7	356.7	330.0	341.0
Motor Fuel	671.8	676.1	672.2	654.0	654.6	663.0
Public Utilities	118.5	178.3	120.2	(1.7)	(0.3)	(0.3)
Room Occupancy	105.8	111.1	119.2	109.5	101.6	99.5
Sales:						
Regular	2,864.7	2,927.7	2,952.2	2,799.7	3,282.8	3,470.9
Meals	584.1	608.7	632.9	629.6	759.6	814.0
Motor Vehicles	<u>555.5</u>	<u>531.1</u>	<u>501.6</u>	<u>439.3</u>	<u>569.3</u>	<u>612.2</u>
Sub-Total-Sales	4,004.3	4,067.5	4,086.7	3,868.6	4,611.7	4,897.1
Miscellaneous	<u>4.0</u>	<u>3.8</u>	<u>3.1</u>	<u>3.3</u>	<u>14.1</u>	<u>16.3</u>
Total Tax Revenues (2)	<u>18,487.4</u>	<u>19,736.3</u>	<u>20,879.2</u>	<u>18,259.5</u>	<u>18,543.7</u>	<u>19,078.0</u>
MBTA Transfer	(712.6)	(734.0)	(756.0)	(767.1)	(767.1)	(767.1)
MSBA Transfer	<u>(488.7)</u>	<u>(557.4)</u>	<u>(634.7)</u>	<u>(702.3)</u>	<u>(605.2)</u>	<u>(653.3)</u>
Total Budgeted Operating Tax Revenues	<u>17,286.2</u>	<u>18,444.9</u>	<u>19,488.5</u>	<u>16,790.0</u>	<u>17,171.4</u>	<u>17,657.0</u>
Federal Reimbursements	5,210.1	6,167.6	6,429.5	8,250.9	8,548.8	9,121.9
Departmental and Other Revenues	2,094.3	2,218.4	2,355.9	2,326.2	2,800.9	2,933.6
Inter-fund Transfers from Non-budgeted Funds and other sources (3)	<u>1,714.9</u>	<u>1,785.0</u>	<u>2,039.3</u>	<u>1,850.3</u>	<u>1,788.8</u>	<u>1,887.7</u>
Budgeted Revenues and Other Sources	26,305.5	28,615.9	30,313.2	29,217.4	30,310.0	31,600.8
Inter-fund Transfers	<u>1,358.1</u>	<u>552.9</u>	<u>2,226.3</u>	<u>1,963.8</u>	<u>770.8</u>	<u>398.3</u>
Total Budgeted Revenues and Other Sources	<u>\$27,663.6</u>	<u>\$29,168.8</u>	<u>\$32,539.5</u>	<u>\$31,181.2</u>	<u>\$31,080.8</u>	<u>\$31,999.1</u>

	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Projected Fiscal 2011</u>
<u>Expenditures and Uses</u>						
Direct Local Aid	\$4,430.0	\$4,805.2	\$5,040.5	\$4,723.6	\$4,837.4	\$4,784.7
Medicaid (4)	6,852.5	7,550.4	8,246.3	8,679.2	9,287.6	10,238.3
Other Health and Human Services	4,433.6	4,625.3	4,796.5	4,828.3	4,616.6	4,655.4
Group Insurance	963.7	1,022.3	852.5	973.1	1,063.8	1,246.1
Department of Elementary and Secondary Education	408.6	459.0	485.8	495.9	358.1	422.4
Higher Education	987.8	1,115.7	1,084.4	1,035.5	845.6	936.9
Department of Early Education and Care	387.1	507.1	549.9	560.3	513.5	510.3
Public Safety	1,288.0	1,399.2	1,544.4	1,514.3	1,423.2	1,410.0
Energy and Environmental Affairs	202.0	238.5	227.1	215.9	202.2	189.7
Debt Service	1,826.7	2,234.4	1,990.1	2,011.7	1,979.9	2,003.9
Post Employment Benefits (5)	1,274.7	1,335.2	1,398.6	1,314.4	1,748.6	1,838.8
Other Program Expenditures	<u>2,138.7</u>	<u>2,364.9</u>	<u>2,414.1</u>	<u>2,350.9</u>	<u>2,509.0</u>	<u>1,978.8</u>
Total - Programs and Services before transfers to Non-budgeted funds	25,193.4	27,657.2	28,630.2	28,703.1	29,384.5	30,215.3
<u>Inter-fund Transfers to Non-budgeted Funds</u>						
Commonwealth Care Trust Fund	-	722.1	1,045.9	987.6	631.7	722.0
State Retiree Benefit Trust Fund (5)	-	-	354.7	352.0	-	-
Medical Assistance Trust Fund	70.0	364.0	376.7	374.0	313.3	640.6
Massachusetts Transportation Trust Fund	-	-	-	-	-	195.1
Other	<u>321.2</u>	<u>179.6</u>	<u>400.9</u>	<u>189.9</u>	<u>94.1</u>	<u>175.0</u>
Total Inter-Fund Transfers to Non- Budgeted Funds	391.2	1,265.7	2,178.2	1,903.5	1,039.1	1,732.7
Budgeted Expenditures and Other Uses	25,584.6	28,922.9	30,808.4	30,606.6	30,423.6	31,948.0
<u>Inter-fund Transfers</u>	<u>1,358.1</u>	<u>553.0</u>	<u>2,226.3</u>	<u>1,963.8</u>	<u>770.8</u>	<u>398.3</u>
Total Budgeted Expenditures and Other Uses	26,942.7	29,475.9	33,034.7	32,570.4	31,194.4	32,346.3
<u>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</u>						
	<u>720.9</u>	<u>(307.1)</u>	<u>(495.2)</u>	<u>(1,389.2)</u>	<u>(113.6)</u>	<u>(347.2)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated (6)	947.2	351.3	171.5	68.9	122.0	10.8
Bay State Competitiveness Investment Fund	-	100.0	-	-	-	-
Transitional Escrow Fund	-	-	-	-	-	-
Stabilization Fund	2,154.7	2,335.0	2,119.2	841.3	669.8	669.8
Undesignated	<u>106.2</u>	<u>114.7</u>	<u>115.1</u>	<u>106.4</u>	<u>111.3</u>	<u>120.0</u>
Total	33,208.1	32,901.0	32,405.8	31,016.6	30,903.1	30,800.6

SOURCES: Fiscal 2006-2010, Office of the Comptroller; fiscal 2011, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Fiscal 2011 Total Tax Revenues reflect the fiscal 2011 tax revenue estimate of \$19.078 billion (which is equal to the \$19.050 billion consensus estimate adjusted for the \$48 million in fiscal 2011 tax initiatives authorized in the fiscal 2011 general appropriations act and \$20 million in the estimated sales tax revenue loss resulting from the August sales tax holiday) and does not include the approximately \$414 million in fiscal 2011 year-to-date tax collections (through October) above the benchmark tax estimate or estimated tax revenue losses resulting from the removal of the sales tax on alcoholic beverages. See "RECENT DEVELOPMENTS – Fiscal 2011" and "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes herein.

(3) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds to allow their expenditure, abandoned property proceeds as well as other inter-fund transfers.

(4) Excludes off-budget Medicaid spending in fiscal 2006 and fiscal 2007 estimated at \$292 million and \$290 million, respectively. Fiscal 2006 through fiscal 2010 include program administration.

(5) Starting in fiscal 2010 Post Employment Benefits include budgeted pension transfers and State Retiree Benefit Trust Fund.

(6) Consists largely of appropriations from previous years, authorized to be expended in current years.

State Taxes

On November 2, 2010, the initiative petition that would have reduced the sales and use tax rates to 3% was defeated by voters. However, the initiative petition to remove the sales tax on alcoholic beverages effective January 1, 2011 was passed by voters. The Department of Revenue estimates the tax revenue loss resulting from this change will be approximately \$46 million for fiscal 2011 and between \$105 million to \$116 million annually thereafter. See the June Information Statement under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; Sales and Use Tax."

Federal and Other Non-Tax Revenues

Lottery Revenues. The Lottery's operating revenues for fiscal 2010 were \$989.7 million. The result was a surplus of \$55.4 million against the assumed \$934.3 billion budget to fund various commitments appropriated by the Legislature from the State Lottery Fund and Arts Lottery Fund, including Lottery administrative expenses, and \$758.8 million in appropriations for local aid to cities and towns, with the balance of \$55.4 million to be transferred to the General Fund for the general activities of the Commonwealth.

The fiscal 2011 budget assumes total transfers from the Lottery of \$986.8 million to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses, and \$812.2 million in appropriations for local aid to cities and towns, with the balance, if any, to be transferred to the General Fund for the general activities of the Commonwealth. For fiscal 2011, the State Lottery Commission is currently projecting net operating revenues of \$986.8 million to fund the assumed transfers.

Employee Benefits

Pension. As of January 1, 2010, the Massachusetts State Employees' Retirement System ("MSERS") had 85,839 active members and 52,486 retirees and beneficiaries, the Massachusetts Teachers' Retirement System ("MTRS") had 88,673 active members and 53,951 retired members and beneficiaries, and the Boston Teachers' Retirement System had 5,564 active members and 3,916 retired members and beneficiaries. Legislation approved in 2010 allows the \$12,000 base for annual cost-of-living allowance increases to be increased in multiples of \$1,000 for local systems by a majority vote of the local retirement board, subject to approval of the local legislative body. See the June Information Statement under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – Employee Benefits; *Pension.*"

Unfunded Actuarial Accrued Liability. On October 1, 2010, pursuant to Chapter 32 of the Massachusetts General Laws, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the total pension obligation as of January 1, 2010. This valuation was based on the plan provisions in effect at the time and is based on member data and asset information as of December 31, 2009.

The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$19.986 billion, including approximately \$5.843 billion for the MSERS, \$12.477 billion for the MTRS, \$1.364 billion for Boston Teachers and \$302 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2010 to be approximately \$61.576 billion (comprised of \$24.862 billion for MSERS, \$33.739 billion for MTRS, \$2.672 billion for Boston Teachers and \$302 million for cost-of-living increases reimbursable to local systems). Total assets were valued on an actuarial basis at approximately \$41.590 billion based on a five-year average valuation method, which equaled 110% of the January 1, 2010 total asset market value. The valuation method was the same as the method used in the 2009 valuation. See the June Information Statement under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – Employee Benefits; *Unfunded Actuarial Accrued Liability.*"

The following table shows the valuation of accrued liabilities and assets from 2006 through 2010:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

Valuation Date	Total Actuarial Accrued Liability	Actuarial Value of Assets(1)	Unfunded Accrued Liabilities	
			Unfunded Actuarial Liability(2)	Market Value of Unfunded Liability
January 1, 2006	\$50,865	\$36,377	\$14,488	\$11,844
January 1, 2007	53,761	40,412	13,349	8,859
January 1, 2008	56,637	44,532	12,105	7,402
January 1, 2009	59,142	37,058	22,084	25,453
January 1, 2010	61,576	41,589	19,986	23,767

SOURCE: Public Employee Retirement Administration Commission.

(1) Based on five-year average smoothing methodology.

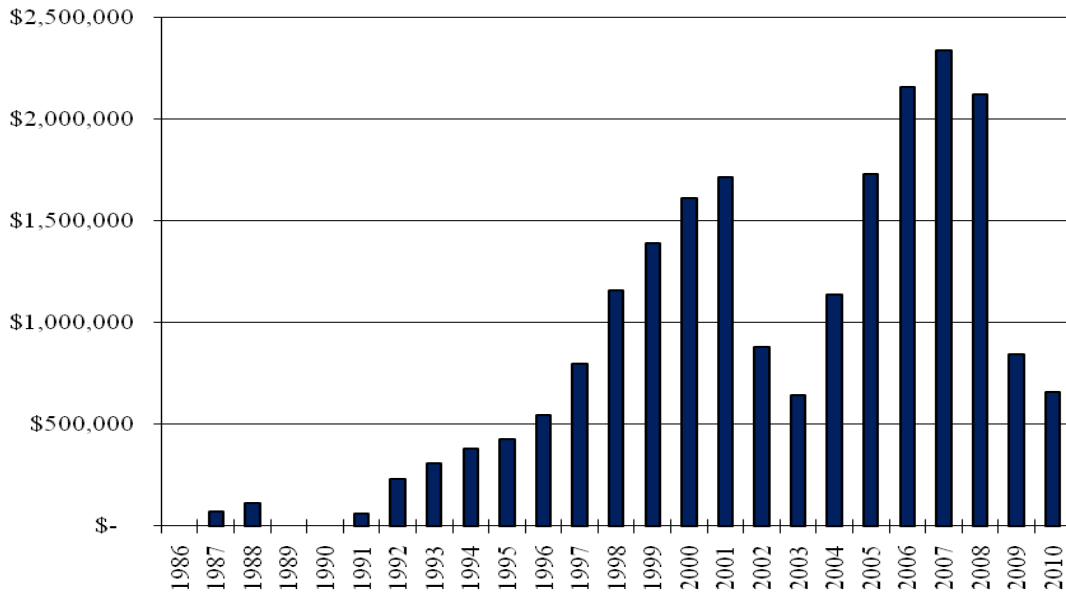
(2) Based on actuarial valuation.

The Secretary of Administration and Finance will update the pension funding schedule as part of the development of the fiscal 2012 budget, taking into account the total fiscal and budgetary context as well as the need to responsibly address the Commonwealth's long-term liabilities.

SELECTED FINANCIAL DATA

The following chart shows the Stabilization Fund balance from fiscal 1986 through fiscal 2010.

Stabilization Fund Balance (in thousands)



SOURCE: Office of the Comptroller.

The following table shows the sources and uses of the Stabilization Fund during fiscal 2006 through fiscal 2010:

Stabilization Fund Sources and Uses (in thousands)

	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>
Beginning fund balances	\$1,728,355	\$2,154,664	\$2,335,021	\$2,119,194	\$841,344
<u>Revenues and Other Sources</u>					
Consolidated net surplus	353,990	90,883	-	64,747	11,269
Lottery transfer taxes	4,204	2,680	2,243	2,436	1,982
CA/T project cost recoveries	-	-	-	-	-
Investment income	68,115	86,794	96,930	43,967	21,782
Transfers due to fund consolidation	-	-	-	-	-
Excess permissible tax revenue	20,000	-	-	-	-
Transfer from Transitional Escrow Fund	-	-	-	-	-
Total Revenues and Other Sources	<u>446,309</u>	<u>180,357</u>	<u>99,173</u>	<u>111,150</u>	<u>35,033</u>
Total Expenditures and Other Uses	<u>20,000</u>	<u>-</u>	<u>315,000</u>	<u>1,389,000</u>	<u>206,574</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>426,309</u>	<u>180,357</u>	<u>(215,827)</u>	<u>(1,227,850)</u>	<u>(171,541)</u>
Ending fund balances	<u>\$2,154,664</u>	<u>\$2,335,021</u>	<u>\$2,119,194</u>	<u>\$841,344</u>	<u>669,803</u>
Allowable Stabilization Fund Balance	<u>\$3,945,820</u>	<u>\$4,292,382</u>	<u>\$4,546,976</u>	<u>\$4,382,687</u>	<u>4,546,502</u>

SOURCE: Office of the Comptroller.

LONG-TERM LIABILITIES

Contingent Liabilities

Massachusetts Development Finance Agency. Under legislation approved by the Governor in August, 2010, the Massachusetts Development Finance Agency (MassDevelopment) is authorized to issue bonds for the benefit of nonprofit community hospitals and nonprofit community health centers. Such bonds are to be secured by capital reserve funds funded at the time of bond issuance in an amount equal to the maximum annual debt service on the bonds. The legislation provides that MassDevelopment is to notify the Governor if any such capital reserve fund needs to be replenished, and that the Legislature is to appropriate the amount necessary to restore the fund to its required level. The legislation contains no limit on the amount of such bonds that may be issued. Any project to be financed by such bonds must be approved by the Secretary of Health and Human Services, and any loan to a community hospital or community health center (and the issuance and terms of the related bonds) must be approved by the Secretary of Administration and Finance. If any such institution defaults on a loan, any moneys in the custody of the Commonwealth that are payable to the institution may be withheld by the Commonwealth and used to pay debt service or to replenish the applicable capital reserve fund. If, following a Commonwealth transfer to replenish a capital reserve fund, the applicable institution fails to reimburse the Commonwealth within six months, the Commonwealth may withhold funds payable to the institution, and all contracts issued by the Group Insurance Commission, the Commonwealth Health Insurance Connector Authority and MassHealth to a third party for the purposes of providing health care insurance paid for by the Commonwealth are to provide that the third party is to withhold payments to the institution and transfer the withheld amounts to the Commonwealth. If, following a Commonwealth transfer to replenish a capital reserve fund, the Commonwealth has not been fully reimbursed within one year, MassDevelopment would be required to reimburse the Commonwealth according to a schedule to be determined by the Secretary of Administration and Finance.

COMMONWEALTH CAPITAL INVESTMENT PLAN

The Executive Office for Administration and Finance annually updates its five-year capital investment plan, including its debt affordability analysis. The five-year plan coordinates capital expenditures by state agencies and authorities that are funded primarily by Commonwealth debt and federal reimbursements. Beginning in fiscal 2009 and expected through fiscal 2013, capital funds are also provided pursuant to the American Recovery and Reinvestment Act of 2009.

The Executive Office for Administration and Finance sets an annual administrative limit on the amount of bond-funded capital expenditures. The purpose of the administrative limit, known as the “bond cap,” is to keep Commonwealth debt within affordable levels.

In October 2010, the Governor released a five-year capital investment plan for fiscal 2011 through fiscal 2015, totaling nearly \$18 billion. With the release of the five-year capital investment plan, the Governor announced that the bond cap will be \$1.625 billion for fiscal 2011, plus \$140 million in unused bond cap from fiscal 2010 which has been carried forward to support spending in fiscal 2011. The bond cap for fiscal 2012 is projected to be \$1.750 billion, and is projected to increase by \$125 million in each subsequent fiscal year through fiscal 2015.

The bond cap determination is based on the debt affordability policy described in the updated debt affordability analysis. Under this policy, the Executive Office for Administration and Finance will set the annual borrowing limit at a level designed to keep debt service within 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistant payment obligations on certain capital lease financings. In addition, while the accelerated bridge program will be funded outside of the bond cap, the related debt service costs of the program have been fully accounted for under the debt affordability policy in setting the bond cap at the designated levels. However, when a project financed with debt payable by the Commonwealth directly or indirectly generates new state revenue that is applied to the payment of such debt, the Executive Office for Administration and Finance will exclude the debt, the related debt service payment obligations and the new revenue used to pay such obligations from the debt affordability analysis. For example, bonds issued by MassDevelopment and payable by the Commonwealth pursuant to the I-Cubed program or for the parkway at the former South Weymouth naval base are excluded from the bond cap, as the Commonwealth’s payment liability with respect to such bonds is expected to be limited to the new state tax revenues generated from the private development supported by the infrastructure improvements financed by the such bonds.

For the purpose of the debt affordability analysis, budgeted revenue includes all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. It does not include off-budget revenues dedicated to the Massachusetts Bay Transportation Authority, the Massachusetts School Building Authority and the Massachusetts Convention Center Authority. The fiscal 2011 estimate was based on the adopted fiscal 2011 budget. For purposes of projecting budgeted revenue in future fiscal years, the compound annual growth rate in budgeted revenues from fiscal 2001 through 2011 of 2.75% was applied to fiscal 2012 revenues and to each year thereafter. This is consistent with the debt affordability policy, which states that projected increases to budgeted revenues will be the lesser of 3% or the actual compound annual growth rate over the last ten fiscal years.

In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap for the regular capital program to not more than \$125 million. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels. As noted above, the bond cap is expected to grow by \$125 million annually from fiscal 2012 through fiscal 2015.

The Executive Office for Administration and Finance will revisit the debt capacity and affordability analysis periodically, and at least every year, to revise estimates for future years by taking into account fluctuations in interest rates, budgeted revenues and other changes affecting the Commonwealth's debt capacity. In addition, the Executive Office for Administration and Finance will annually assess the appropriateness of the methodology and constraints for establishing the bond cap.

The following table shows the annual bond cap, the resulting estimated total annual debt service payment obligations and the estimated debt service as a percentage of estimated budgeted revenues, all as presented in the debt affordability analysis released in October 2010.

	Bond Cap (in thousands)				
	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>
Bond Cap (1)	\$ 1,765,000	\$ 1,750,000	\$ 1,875,000	\$ 2,000,000	\$ 2,125,000
Total Debt Service Obligations	1,947,612	2,278,939	2,441,053	2,517,892	2,623,161
Estimated Budgeted Revenue	29,989,511	30,804,986	31,642,776	32,503,722	33,388,838
Debt Service as % of Budgeted Revenues	6.49%	7.40%	7.71%	7.75%	7.86%

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis released October, 2010.

(1) Includes \$140 million of fiscal 2010 unused bond cap that has been carried forward to fiscal 2011.

Reflecting changed economic conditions, the total bond cap projected in the fiscal 2011 through fiscal 2015 five-year plan is \$1.045 billion less than the total bond cap projected in the fiscal 2008 through fiscal 2012 five-year capital plan.

In the past, the Commonwealth aggregated its capital expenditures into eight major categories based primarily on the agencies responsible for spending and carrying out capital projects: information technology, infrastructure and facilities, environment, housing, public safety, transportation, convention centers, other and school building assistance. The following table sets forth historical capital spending in fiscal 2006 through fiscal 2010 according to these categories.

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Commonwealth Historical Capital Spending (in millions)

Investment Category:	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>
Information technology	\$ 88	\$ 53	\$ 65	\$ 97	\$ 100
Infrastructure/facilities	283	271	186	333	391
Environment	142	153	188	246	158
Housing	129	140	172	252	318
Public safety	19	18	19	21	11
Transportation	1,189	1,120	1,109	1,388	1,694
Convention centers	12	2	-	-	5
Other	30	29	43	96	108
School building assistance	<u>435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total (1)	<u>\$2,327</u>	<u>\$1,786</u>	<u>\$1,782</u>	<u>\$2,432</u>	<u>\$2,785</u>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

Beginning in fiscal 2008, the Executive Office for Administration and Finance re-characterized capital spending into 12 categories based on spending purpose, rather than spending agency: community investments, corrections, courts, economic development, energy and environment, health and human services, higher education, housing, information technology, public safety, state office buildings and facilities, and transportation. This presentation of capital investment categories results in certain expenditures appearing in categories that are different from those in which they had been categorized in the historical capital spending table above. For example, Chapter 90 local aid for municipal transportation projects appears in the community investment category, rather than the transportation category, because these funds are invested in municipally-owned assets.

The capital investment plan for fiscal 2011 through fiscal 2015 is designed to allocate resources strategically to invest in the Commonwealth's public facilities and programs and represents the Governor's vision for public infrastructure. The following tables show the allocation of bond cap spending by major investment category and the allocation of total capital spending from all sources of funding by major investment category for fiscal 2011 through fiscal 2015.

Capital Investment Plan – Total Bond Cap (in millions)

Investment Category:	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>5-Year Total</u>	<u>% of 5-Year Total</u>
Community Investments	\$ 235	\$ 238	\$ 239	\$ 240	\$ 240	\$ 1,192	13%
Corrections	17	31	52	75	81	256	3%
Courts	75	51	53	107	131	417	4%
Economic Development	118	119	131	133	135	635	7%
Energy/Environment	110	101	104	106	108	528	6%
Health/Human Services	100	86	47	59	63	354	4%
Higher Education	134	166	262	259	259	1,080	11%
Housing	168	168	171	173	178	858	9%
Information Technology	97	83	84	87	89	441	5%
Public Safety	19	20	27	44	50	160	2%
State Buildings/Facilities	102	112	67	50	56	387	4%
Transportation	<u>589</u>	<u>574</u>	<u>638</u>	<u>669</u>	<u>736</u>	<u>3,206</u>	<u>34%</u>
Total (1)	<u>\$1,765</u>	<u>\$1,750</u>	<u>\$1,875</u>	<u>\$2,000</u>	<u>\$2,125</u>	<u>\$9,515</u>	<u>100%</u>

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released October, 2010.

(1) Totals may not add due to rounding.

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Capital Investment Plan – All Sources of Funding (in millions)

Investment Category:	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>5-Year Total</u>	<u>% of 5-Year Total</u>
Community Investments	\$ 299	\$ 284	\$ 278	\$ 277	\$ 276	\$ 1,414	8%
Corrections	17	31	52	75	81	256	1%
Courts	75	51	71	123	144	464	3%
Economic Development	204	194	191	183	185	956	5%
Energy/Environment	215	201	204	206	208	1,034	6%
Health/Human Services	100	88	54	64	68	373	2%
Higher Education	191	241	277	259	259	1,227	7%
Housing	323	240	171	173	178	1,085	6%
Information Technology	101	83	84	87	89	444	2%
Public Safety	33	30	38	49	50	201	1%
State Buildings/Facilities	102	112	67	50	56	387	2%
Transportation	<u>1,763</u>	<u>2,023</u>	<u>2,172</u>	<u>2,123</u>	<u>2,068</u>	<u>10,148</u>	<u>56%</u>
Total(1)	<u>\$3,423</u>	<u>\$3,578</u>	<u>\$3,660</u>	<u>\$3,667</u>	<u>\$3,661</u>	<u>\$17,990</u>	<u>100%</u>

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released October, 2010.

(1) Totals may not add due to rounding.

The different sources of funding for the capital program, as reflected in the table above, include:

- Bond cap – Commonwealth borrowing to support the regular capital program;
- Federal – federal reimbursements for capital expenditures, primarily for transportation projects;
- Third-party – contributions made by third parties to capital projects being carried out by the Commonwealth;
- Project-financed bonds – self-supporting bonds payable by the Commonwealth from project-related revenue;
- Accelerated Bridge Program – Commonwealth special obligation bonds secured by revenues credited to the Commonwealth Transportation Fund or federal grant anticipation notes issued to fund the accelerated bridge program;
- American Recovery and Reinvestment Act of 2009 (ARRA) – funds provided by the federal stimulus bill directly to the Commonwealth for targeted capital investments; and
- Energy Efficiency – self-supporting Commonwealth general obligation bonds payable with savings to be achieved as a result of energy efficiencies.

The following table shows the sources of capital funds for fiscal 2010 and the estimated sources of funds for the next five fiscal years.

Capital Investment Plan – Sources of Funds (in millions)

<u>Fiscal Year</u>	<u>Bond Cap</u>	<u>Federal</u>	<u>Third Party</u>	<u>Project Financed</u>	<u>Accelerated Bridge Program</u>	<u>ARRA</u>	<u>Energy Efficiency</u>	<u>Total (1)</u>
2010	\$1,589	\$ 708	\$ 58	\$ 12	\$ 206	\$ 212	\$ -	\$ 2,785
2011	1,775	704	193	68	210	380	154	3,332
2012	1,750	725	243	152	294	192	83	3,354
2013	1,875	743	116	156	493	89	71	3,470
2014	2,000	752	49	193	605	-	-	3,599
2015	2,125	715	50	189	565	-	-	3,644

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

LEGAL MATTERS

Matters described in the June Information Statement under the heading “LEGAL MATTERS” are updated as follows:

Health Care for All v. Romney, et al., United States District Court. Crucial aspects of the plan, including certain regulatory changes and the retention of a third-party administrator for the MassHealth dental plan, have already been implemented, but it is anticipated that ongoing compliance with the judgment will result in additional costs which cannot accurately be estimated at this time. Court oversight of the remediation plan is scheduled to end February 2011, but could be extended.

Rosie D., et al. v. The Governor, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment (“EPSDT”) provisions of the Medicaid Act. In February 2007, the District Court adopted the defendants’ proposed remedial plan, with some modifications, and, in July 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has begun implementation of its remedial plan. The plan originally contemplated full implementation by June 30, 2009, but, on the Commonwealth’s motion, the court modified the judgment to extend the date for full implementation to November 30, 2009. In January 2009, the Court allowed plaintiffs’ motion for \$7 million in legal fees. The cost of implementation is likely to exceed \$20 million annually beginning in fiscal 2009. Although in fiscal 2009 the Commonwealth paid the plaintiffs’ attorneys approximately \$7.1 million in court-approved fees, plaintiffs are entitled to submit additional petitions for recovery of attorneys’ fees incurred post-judgment (e.g., for monitoring activity), through the end of the remedial plan implementation period (July, 2012). In late May 2010, plaintiffs moved the court for payment of approximately \$1.48 million in attorneys’ fees for monitoring the implementation of the judgment during the period from January 1, 2007, through June 30, 2009. Defendants’ counsel has filed an objection to approximately \$250,000 of the fees requested.

Harper et al. v. Massachusetts Department of Transitional Assistance, United States District Court. As the result of an August 2010 court order, the case is stayed while the parties engage in mediation.

Kristy Didonato, et al. v. Department of Transitional Assistance, et al. (Didonato I and Didonato II), Massachusetts Housing Court Western Division. A hearing on the motion to amend was held on June 17, 2010. The court took the matter under advisement and has not yet issued a ruling.

Finch, et al. v. Health Insurance Connector Authority, et al., Supreme Judicial Court for Suffolk County. This lawsuit, filed directly in the Supreme Judicial Court single justice session, challenges, under the state Equal Protection Clause, a statute enacted in August 2009 that excludes from the Commonwealth Care program, run by the Connector Authority, those individuals who are alien residents with special status (AWSS). Many members of the AWSS population are otherwise eligible for subsidized insurance through the Commonwealth Care program. Because the Commonwealth does not receive federal Medicaid funds for these individuals (unlike other members of Commonwealth Care), the Legislature effectively reduced the Connector Authority’s budget by excluding this group of members. The Commonwealth then established a less expensive program to cover much of the AWSS population with health insurance. The lawsuit does not ask for retroactive relief, but seeks to have the individuals reinstated to the Commonwealth Care program. While no opinion on the likelihood of loss is expressed, if plaintiffs succeed on their claims, and the Legislature makes no other changes to eligibility requirements, the Commonwealth could incur more than \$100 million in additional costs for covering special status immigrants through Commonwealth Care per fiscal year. This is a conservative estimate based on projected average program costs and will be refined as updated cost and enrollment information for special status immigrants becomes available.

In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund). By the end of pool fiscal year 2011, the Commonwealth will have collected an estimated \$4.997 billion in acute hospital assessments since 1990 and an estimated \$1.877 billion in surcharge payments since 1998. Clarification of the law surrounding permissible provider taxes is a national issue involving a number of states.

In re: Deferral of 2005 MassHealth acute hospital supplemental payments. In March, 2006, CMS deferred payment of claims for federal financial participation (“FFP”) totaling almost \$52.5 million. This amount represents the federal share of the portion of MassHealth supplemental payments to Boston Medical Center (“BMC”), Cambridge Health Alliance (“CHA”) and UMass Memorial Health Care, Inc. (“UMMHC”) hospitals attributable to dates of service on or before fiscal 2003. CMS released \$16.4 million in FFP for payments to BMC and CHA and is holding \$27 million in FFP for payments to UMMHC. EOHHS returned \$9 million in FFP based on its own update of projected payment limits.

In re: Disallowance by the U. S. Department of Health and Human Services Centers of Medicare and Medicaid Services (Targeted Case Management). On March 20, 2008, the Centers for Medicare and Medicaid Services (CMS) issued a notice of disallowance of \$86,645,347 in Federal Financial Participation (FFP) for fiscal 2002 and fiscal 2003. As the basis for the disallowance, CMS cited the final findings of an audit conducted by the Office of the Inspector General of the U. S. Department of Health and Human Services regarding Medicaid targeted case management claims for children in the target group of abused or neglected children involved with the Department of Social Services. The Commonwealth appealed the CMS disallowance to the Departmental Appeal Board of the U. S. Department of Health and Human Services. On December 31, 2008, the Departmental Appeals Board affirmed the disallowance. The Commonwealth filed an appeal of the disallowance in federal district court on February 25, 2009. (See *Commonwealth v. Sebelius* below.)

Commonwealth v. Sebelius, United States District Court (referred to as *Commonwealth v. Johnson* in the June Information Statement). The Attorney General filed this action seeking judicial review of the decision by the federal Centers for Medicare and Medicaid Services (CMS) to deny approximately \$86.6 million FFP for targeted case management (TCM) services provided by the Department of Children and Families (formerly the Department of Social Services). On March 24, 2010, the District Court entered judgment for the United States. On May 20, 2010, the Commonwealth filed its appeal with the United States Court of Appeals for the First Circuit. The parties have since reached a settlement in principle, whereby the Commonwealth will stipulate to dismissal of the appeal in exchange for CMS’s waiver of future disallowances for periods after fiscal 2003. The settlement should be finalized in September 2010, at which point the district court’s judgment upholding the \$86,645,347 disallowance will be final.

Boston Medical Center Corp. and Boston Medical Center Health Plan, Inc. v. Secretary of the Executive Office of Health and Human Services, Suffolk Superior Court. Plaintiffs filed suit in July 2009 claiming that they are owed at least \$127.6 million, plus interest, for fiscal 2009. First, plaintiffs allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services provided to Medicaid clients by the Boston Medical Center hospital and managed care organization entities and that, if the rates for that year were increased to levels that BMC seeks, it would be entitled to an additional \$120.9 million for fiscal 2009. Second, BMC also alleges that it is entitled to an additional \$6.7 million in net supplemental payments for fiscal 2009 under St. 2006, c. 58, § 122, the so-called Health Care Reform Act. Defendant filed an Answer denying all claims. A hearing on the Defendant’s motion to dismiss all claims was held September 29, 2010.

Holyoke Medical Center, Inc., et al. v. Secretary of the Executive Office of Health & Human Services, Suffolk Superior Court. Six community hospitals that mainly serve patients covered by state and federal public insurance plans filed suit in December 2009 claiming that they are owed at least \$115.9 million by the Commonwealth’s Medicaid program. Plaintiffs allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services provided to Medicaid clients by the six plaintiff hospitals. A hearing on the Defendant’s motion to dismiss all claims is scheduled for December 13, 2010.

Carol Surprenant v. Massachusetts Turnpike Authority, Massachusetts Port Authority, and Massachusetts Department of Transportation. United States District Court. Plaintiff originally sued the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort) on behalf of a purported “class” consisting of all toll-payers at the Tobin Memorial Bridge and the Sumner and Ted Williams Tunnels who use E-Z Pass or Fast Lane transponders but do not qualify for the so-called “Resident Discount Programs.” The plaintiff claims that the “Resident Discount Programs” are unconstitutional. The MTA and MassPort filed a motion to dismiss the complaint. On March 4, 2010, the court allowed, in part, their motion to dismiss under the federal Privileges and Immunities Clause and denied it, in part, as to the claim under the federal Commerce Clause. The Court authorized a 90 day period for discovery, followed by supplemental briefing. On April 5, 2010, plaintiff filed her first amended complaint, adding the Massachusetts Department of Transportation (“MassDOT”) as a defendant. MassDOT answered the amended complaint by denying all claims, and by asserting that the claims against it are barred by the Commonwealth’s sovereign immunity, and by the fact that neither the Commonwealth nor MassDOT is subject to

suit under 42 U.S.C. § 1983. The Court has scheduled a hearing on the motion for judgment on the pleadings for November 23, 2010.

Wellesley College v. Commonwealth, Suffolk Superior Court. Wellesley College has claimed a right of contribution from the Commonwealth and reserved potential counterclaims for costs related to the clean-up of environmental contamination on the Wellesley College campus and adjacent areas, including Lake Waban (the “Site”). In September, 2001, the Court entered judgment incorporating a partial settlement between the parties, under which the College funded a clean-up of hazardous materials at the campus and the northern shoreline of Lake Waban that is expected to cost approximately \$40 million. The judgment has since been amended by agreement of the parties and with approval of the court. Under the terms of the partial settlement and judgment, the Commonwealth has reimbursed the college approximately \$1.1 million (approximately 2.5% of total clean-up costs) from an escrow account after the Department of Environmental Protection (DEP) determined that a portion of the Lake Waban shoreline clean-up was properly performed. The Commonwealth and the College have each reserved rights against the other concerning liability for future clean-up costs for portions of the Site not covered by the partial settlement. Other issues that may lead to counterclaims by the College against the Commonwealth or its agencies include (1) groundwater contamination, estimated to cost \$2 million or more depending on future decisions by DEP on appropriate clean-up; (2) clean-up of Lake Waban itself, for which DEP has now approved a temporary solution, reviewable every five years; and (3) clean-up of contaminated sediments in Lower Waban Brook. (If a full clean-up of the lake is required in the future, it could cost up to \$100 million.)

Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc., d/b/a Perini - Kiewit - Cashman Joint Venture v. Commonwealth. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Ted Williams Tunnel project. Plaintiffs have asserted claims in excess of \$130 million. These claims are at various stages of resolution, including the Superior Court and the Central Artery Tunnel Project Dispute Review Board (“DRB”) panel. The DRB has issued decisions on some of the claims, awarding plaintiffs approximately \$62 million on claims of approximately \$92 million. Those decisions are now the subject of further court proceedings. Plaintiffs also still have in excess of \$72 million in claims pending.

TJX Companies v. Commissioner of Revenue (“TJX II”), Appeals Court. In *TJX II*, the taxpayer challenged a tax liability of approximately \$18 million (including interest) arising from the Commissioner’s disallowance of deductions for various royalty payments and interest taken in connection with transactions between several subsidiaries of the taxpayer. The Appellate Tax Board decided *TJX II* in favor of the Commissioner, and the taxpayer appealed. The Appeals Court affirmed the decision of the Appellate Tax Board in an unpublished decision dated July 23, 2010.

Local 589, Amalgamated Transit Union, et al. v. Commonwealth of Massachusetts, et al., Suffolk Superior Court. A Superior Court hearing on the parties’ cross-motions for summary judgment is currently scheduled for October 7, 2010.

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et. al. (2003 NPM Adjustment) In early July, 2010, the three judge panel of arbitrators was seated to hear the 2003 NPM Adjustment arbitration between Massachusetts and the other states on one side, and the participating cigarette manufacturers on the other side. On July 20, 2010, the panel conducted its first administrative conference with all parties, and has scheduled resolution of certain preliminary jurisdictional issues raised by other parties. The next hearing has been scheduled for October 5, 2010, with an agenda yet to be determined by the panel. The parties anticipate that the panel will identify, during the October 5, 2010 hearing, other preliminary legal issues that the panel wishes to have briefed for its determination in the coming months.

Connor B., ex rel. Vigurs, et al. v. Patrick, et al., United States District Court, Western Division. On August 20, 2010, defendants filed a motion to dismiss the entire complaint. The court has not yet issued a ruling.

Vodafone Americas, Inc. v. Commissioner of Revenue, Appellate Tax Board. The trial date is scheduled for January 19, 2011.

MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of general and special laws and of other documents set forth or referred to in the June Information Statement and this Supplement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

The June Information Statement and this Supplement contain certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the Commonwealth and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the Commonwealth and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as “may,” “will,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates” and others.

All estimates and assumptions in the June Information Statement and this Supplement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in the June Information Statement and this Supplement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

Neither the Commonwealth’s independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The information, estimates and assumptions and expressions of opinion in the June Information Statement and this Supplement are subject to change without notice. Neither the delivery of this Supplement nor any sale made pursuant to any official statement of which the June Information Statement and this Supplement are a part shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth or its agencies, authorities or political subdivisions since the date of this Supplement, except as expressly stated.

CONTINUING DISCLOSURE

The Commonwealth prepares its Statutory Basis Financial Report and its Comprehensive Annual Financial Report with respect to each fiscal year ending June 30. The Statutory Basis Financial Report becomes available by October 31 of the following fiscal year and the Comprehensive Annual Financial Report becomes available in January of the following fiscal year. Copies of such reports and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, One Ashburton Place, Room 909, Boston, Massachusetts 02108. The financial statements are also available at the Comptroller’s web site located at <http://www.mass.gov/osc> by clicking on “Financial Reports/Audits.”

On behalf of the Commonwealth, the State Treasurer will provide to the Municipal Securities Rulemaking Board (MSRB), no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in Rule 15c2-12 of the federal Securities and Exchange Commission, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth and has not failed in the last seven years to comply with its continuing disclosure undertakings with respect to its special obligation debt and federal grant anticipation notes. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth’s special obligation debt and for the Commonwealth’s federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the MSRB.

The Department of the State Auditor audits all agencies, departments and authorities of the Commonwealth at least every two years. Copies of audit reports may be obtained from the State Auditor, State House, Room 229, Boston, Massachusetts 02133.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding the June Information Statement or this Supplement or requests for additional information concerning the Commonwealth should be directed to Colin MacNaught, Assistant Treasurer for Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Karol Ostberg, Director of Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to the June Information Statement or this Supplement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Timothy P. Cahill
Timothy P. Cahill
Treasurer and Receiver-General

By /s/ Jay Gonzalez
Jay Gonzalez
Secretary of Administration and Finance

November 10, 2010

\$8,425,898.26
THE COMMONWEALTH OF MASSACHUSETTS
GENERAL OBLIGATION BONDS
CONSOLIDATED LOAN OF 2010
COLLEGE OPPORTUNITY BONDS, SERIES A

BOND PURCHASE AGREEMENT

The Commonwealth of Massachusetts
c/o The Honorable Timothy P. Cahill
Treasurer and Receiver-General
State House, Boston, Massachusetts 02133

Dear Treasurer Cahill:

The undersigned Massachusetts Educational Financing Authority, as administrator of The U. Plan: The Massachusetts Tuition Prepayment Program (the "Program") pursuant to Chapter 15C of the Massachusetts General Laws (hereinafter the "Authority") and Bank of America, formerly known as Fleet National Bank (as successor to Shawmut Bank, N.A.) as Custodian under a Custody Agreement dated February 1, 1995, as supplemented (the "Custody Agreement") between Bank of America, formerly known as Fleet National Bank (as successor to Shawmut Bank, N.A.) and the Authority (in such capacity the "Custodian"), acting on behalf of the purchasers of beneficial ownership interests in the Bonds under the Program, offer to enter into this Bond Purchase Agreement with The Commonwealth of Massachusetts (hereinafter sometimes called the "Commonwealth") which, upon your acceptance of this offer, will be binding upon you, the Authority and the Custodian.

Pursuant to the Constitution and laws of the Commonwealth, the Commonwealth is authorized to and intends to issue its \$8,425,898.26 aggregate principal amount (as such amount may be adjusted pursuant to the terms hereof) of The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A (the "Bonds"). The Bonds shall be dated, shall have the maturities, shall bear and accrue interest at the rates per annum and shall be payable on the dates, all as set forth in Exhibit A attached hereto.

1. Upon the terms and conditions and upon the basis of the representations and warranties set forth herein, the Custodian shall purchase from the Commonwealth (but only from moneys provided to the Custodian by the Authority under the Custody Agreement and only at the direction of the Authority), and the Commonwealth hereby agrees to sell and deliver to the Custodian, all of the Bonds, provided that the aggregate initial principal amount of the Bonds, and the aggregate initial principal amount of the Bonds of one or more maturities, may be

adjusted on or before the Closing Date (as defined below) by mutual agreement of the parties hereto. The purchase price for the Bonds shall be the amount set forth as the Purchase Price thereof in Exhibit A attached hereto, calculated as shown in such Exhibit A.

2. Pursuant to Chapter 29, Section 49C(b) of the Massachusetts General Laws, the Treasurer and Receiver-General of the Commonwealth is required, as a condition to issuance of the Bonds, to prepare a report (the "Report") establishing the amount of Bonds to be issued in the fiscal year in which the Bonds will be issued and determining that it is prudent for the Commonwealth to authorize such Bonds. The Treasurer and Receiver-General agrees to prepare the Report as soon as is practicable and to cause it to be filed in accordance with said Section 49C(b) with the Authority, the Secretary of Administration and Finance and the House and Senate Ways and Means Committees prior to the Closing Date.

3. Beneficial ownership interests in the Bonds ("Tuition Certificates") have been offered to the public pursuant to (i) a Program Description and Offering Statement dated May 1, 2010 (the "2010 Offering Statement") or (ii) in the case of beneficial owners who have received a Program Description and Offering Statement in a prior year in connection with their purchases of beneficial interests in bonds issued by the Commonwealth for the Program, an Update dated as of May 1, 2010 to Program Description and Offering Statement (the "2010 Update"); the 2010 Offering Statement and the 2010 Update, together with all appendices thereto, and the Commonwealth Information Statement, as supplemented or updated by any supplements or updates published prior to the Closing Date (as so supplemented and/or updated, the "Information Statement"), as such documents may from time to time be amended or supplemented in accordance herewith, are herein collectively referred to as the "Offering Statement," which term includes the prior offering statements for the Program (the "Prior Offering Statements") as updated by the 2010 Update. Copies of the Information Statement are available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system.

The Commonwealth and the Authority hereby authorize the use of the Offering Statement to the extent applicable in connection with the public offering and sale of the beneficial ownership interests in the Bonds. The Commonwealth and the Authority hereby ratify such use of the Offering Statement prior to the time of acceptance hereof by the Commonwealth in connection with the public offering of the beneficial ownership interests in the Bonds. The Commonwealth agrees to provide to the Authority not later than seven business days after the time of acceptance hereof by the Commonwealth such number of copies of the most current updated version of the Information Statement as may be reasonably requested by the Authority, and hereby confirms that the Offering Statement is the final official statement within the meaning of paragraph (e)(3) of Securities and Exchange Commission Rule 15c2-12. The Authority acknowledges that it has received adequate numbers of the Offering Statement and shall be responsible for supplying any additional copies of the Offering Statement (other than the Information Statement) as may be required. As of the date of the Offering Statement the Commonwealth and the Authority deemed the Offering Statement "final" as that term is used in paragraph (b)(1) of Rule 15c2-12. The Authority agrees that it shall be responsible for the contents and accuracy of the Authority Portions (as defined below).

4. The Commonwealth represents and warrants to and agrees with the Custodian and the Authority that:

(a) The Commonwealth has, and at the Closing Date will have, full legal right, power and authority to enter into this Bond Purchase Agreement, to issue and deliver the Bonds to the Custodian as provided herein and to carry out and consummate all other transactions contemplated by this Bond Purchase Agreement, and at the Closing Date the Commonwealth will have taken all necessary action required to make the Bond Purchase Agreement and the Bonds valid and binding obligations of the Commonwealth, and when executed and delivered, this Bond Purchase Agreement will constitute the valid and binding obligation of the Commonwealth enforceable against the Commonwealth in accordance with its terms;

(b) When executed and delivered, the Bonds will be valid, binding and enforceable general obligations of the Commonwealth, for the payment of the principal of and interest on which the full faith and credit of the Commonwealth will be validly pledged, subject to certain statutory limits on revenue growth and expenditures for debt service on obligations of the Commonwealth, including the Bonds, the pledge of certain taxes to obligations of the Commonwealth other than the Bonds, and limitations on attaching or levying against property of the Commonwealth and on the satisfaction of judgments against the Commonwealth, all as described in the Information Statement under the headings "COMMONWEALTH REVENUES AND EXPENDITURES - Limitations on Tax Revenues" and "LONG-TERM LIABILITIES - Debt Service Requirements on Commonwealth Bonds";

(c) All authorizations, consents or approvals of, or filings or registrations (other than any filings required under the Blue Sky or other state securities laws and regulations), if any, with, any Governmental Authority (hereinafter defined) or court necessary for the valid issuance of and performance by the Commonwealth of its obligations under the Bonds (other than any requirement that amounts be appropriated to perform such obligations) will have been duly obtained or made prior to the issuance of the Bonds; as used herein, the term "Governmental Authority" refers to any legislative body or governmental official, department, commission, board, bureau, agency, authority, instrumentality, body or public benefit corporation;

(d) At the time of the Commonwealth's acceptance hereof there has not been, and at the Closing Date there will not have been, any material adverse change in the financial condition of the Commonwealth as stated in both the Comprehensive Annual Financial Report for the Fiscal Year of the Commonwealth ended June 30, 2009 or the Statutory Basic Financial Report for the Fiscal Year of the Commonwealth ended June 30, 2010, other than as contemplated by the Information Statement;

(e) The Offering Statement (excluding therefrom the information contained in the Authority Portions, in Appendix A or under the heading "OWNER ACCOUNT" in the 2010 Offering Statement or the heading "OWNER ACCOUNT" in Prior Offering Statements, as updated by the information contained under the heading "UPDATED INFORMATION RELATING TO OWNER ACCOUNT" in the 2010 Update, as to which no representations and

warranties are made) as of the date thereof did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and the Offering Statement (excluding therefrom the information contained therein in the Authority Portions and under the above-referenced heading, as to which no representations and warranties are made) as supplemented or amended as required hereby at all times subsequent thereto up to and including the date which is twenty-five (25) days following the Closing Date as of the date of each such supplement or amendment, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(f) As of the time of acceptance hereof the Commonwealth is not, and as of the Closing Date the Commonwealth will not be, in default as to payment when due of the principal of and interest on any bond or note of the Commonwealth or as to payment of any sum due on account of any guarantee by it of bonds or notes in accordance with the terms of such guarantee or as to payment of any sum due under any contract for assistance by it relating to bonds or notes in accordance with the terms of such contract; and the execution and delivery by the Commonwealth of this Bond Purchase Agreement and the issuance, sale and delivery of the Bonds, and compliance with the provisions on its part contained in each thereof does not and will not conflict with or constitute a breach of or default or event of default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, note, bond, resolution, indenture, agreement or other instrument to which the Commonwealth is, or will on the Closing Date be, a party;

(g) No litigation is pending or, to the knowledge of the Attorney General of the Commonwealth, threatened, seeking to enjoin the issuance, sale, execution and delivery of the Bonds or the execution, delivery or performance of this Bond Purchase Agreement, or in any way contesting or affecting the validity of or security for the Bonds or the levy or collection of any material portion of the taxes or other revenues of the Commonwealth (except as described in the Information Statement under the heading "LEGAL MATTERS"), or contesting in any way the completeness, accuracy or fairness of the Offering Statement or the Information Statement or contesting the title to his or her office of any Commonwealth official signing the Bonds;

(h) The Bonds as delivered at the Closing will conform in all material respects to the descriptions thereof contained in the Offering Statement; and

(i) If between the date of the Offering Statement and the Closing Date an event affecting the Commonwealth or the Bonds occurs of which the Commonwealth has knowledge and which would cause the Offering Statement to contain any untrue statement of material fact or to omit to state a material fact which should be included therein for the purpose for which the Offering Statement is to be used or which is necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Commonwealth shall immediately notify the Authority and if such event (1) requires an amendment or supplement to the Information Statement, the Commonwealth will amend or supplement the Information Statement in a form and in a manner approved by the Commonwealth and the

Authority, and will promptly provide the Authority with such number of copies thereof as may be reasonably requested and (b) requires an amendment or supplement to any other portion of the Offering Statement, the Commonwealth will provide to the Authority the information needed for such amendment or supplement, insofar as it relates to the Commonwealth or the Bonds, for incorporation in an amendment or supplement to be supplied by the Authority.

5. The Authority represents and warrants to and agrees with the Commonwealth and the Custodian that:

(a) The Authority has, and at the Closing Date will have, full legal right, power and authority to enter into this Bond Purchase Agreement and to carry out and consummate all other transactions contemplated by this Bond Purchase Agreement and by the Enrollment Agreement (as annexed to the Offering Statement), the Custody Agreement, the Custodial Account Agreement between the Authority and Bank of America, formerly known as Fleet National Bank (successor to Shawmut Bank, N.A.) and the Participation Agreement with Participating Institutions, as defined in the Enrollment Agreement (collectively, the "Program Documents") to be carried out by the Authority, and at the Closing Date the Authority will have taken all necessary action required to make each of the Bond Purchase Agreement and the Program Documents a valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms;

(b) All authorizations, consents or approvals of, or filings or registrations, if any, with any Governmental Authority or court necessary for the performance by the Authority of its obligations under this Bond Purchase Agreement and the Program Documents will have been duly made or obtained prior to the Closing Date;

(c) The Tuition Certificates provided to the beneficial owners of the Bonds and the Program will conform in all material respects to the descriptions thereof contained in the Offering Statement and the Enrollment Agreement;

(d) The execution and delivery by the Authority of this Bond Purchase Agreement and the Program Documents and compliance with the provisions on its part contained in each thereof does not and will not conflict with or constitute a breach of or default or event of default under any constitutional provision, law, administrative judgment, decree, loan agreement, note, bond, resolution, indenture, agreement or other instrument to which the Authority is, or will on the Closing Date be, a party;

(e) No litigation is pending against the Authority or, to the knowledge of the Authority, threatened, seeking to enjoin the issuance, sale and delivery of the Tuition Certificates or the execution, delivery or performance of this Bond Purchase Agreement or any Program Document, or contesting in any way the completeness, accuracy or fairness of the Offering Statement or any aspect of the Program;

(f) The Authority Portions of the Offering Statement as of the date thereof did not contain any untrue statement of a material fact or omit to state a material fact necessary to make

the statements therein, in the light of the circumstances under which they were made, not misleading, and such portions of the Offering Statement as of the date hereof, and as supplemented or amended as required hereby at all times subsequent thereto up to and including the date which is twenty-five (25) days following the Closing Date as of the date of each such supplement or amendment, does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(g) If between the date of the Offering Statement and the Closing Date an event affecting the Tuition Certificates or the Program of which the Authority has knowledge and which would cause the Offering Statement to contain any untrue statement of material fact or to omit to state a material fact which should be included therein for the purpose for which the Offering Statement is to be used or which is necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, the Authority shall immediately notify the Commonwealth and if such event requires an amendment or supplement to the Offering Statement, the Authority will provide for the amendment or supplementing of the Offering Statement in a manner approved by the Commonwealth.

6. The Custodian represents and warrants to and agrees with the Commonwealth and the Authority that:

(1) The Custodian has, and at the Closing Date will have, full legal right, power and authority to enter into this Bond Purchase Agreement, the Custody Agreement and the Custodial Account Agreement (collectively, the "Custodian Documents") and to carry out and consummate all other transactions contemplated by this Bond Purchase Agreement, by the Offering Statement and by the Custodian Documents to be carried out by the Custodian, and at the Closing Date the Custodian will have taken all necessary action required to make each of the Bond Purchase Agreement and the Custodian Documents a valid and binding obligation of the Custodian enforceable against the Custodian in accordance with its terms;

(2) All authorizations, consents or approvals of, or filing or registrations, if any, with any Governmental Authority or court necessary for the performance by the Custodian of its obligations under this Bond Purchase Agreement and the Custodian Documents will have been duly made or obtained prior to the Closing Date;

(3) The execution and delivery by the Custodian of this Bond Purchase Agreement and the Custodian Documents and compliance with the provisions on its part contained in each thereof does not and will not conflict with or constitute a breach of or default or event of default under any constitutional provision, law, administrative judgment, decree, loan agreement, note, bond, resolution, indenture, agreement or other instrument to which the Custodian is, or will on the Closing Date be, a party; and

(4) No litigation is pending against the Custodian or, to the knowledge of the Custodian, threatened, seeking to enjoin the issuance, sale and delivery of the Tuition

Certificates or the execution, delivery or performance of this Bond Purchase Agreement or any of the Custodian Documents.

7. (a) By 10:00 A.M., Boston, Massachusetts time on December 1, 2010, or on such other date or on such other time as shall be mutually agreed upon between the Commonwealth, the Authority and the Custodian for delivery of and payment for the Bonds (the "Closing Date"), the Commonwealth will deliver the Bonds to or for the account of the Custodian in definitive form, duly executed, at the offices of the Custodian in Boston, Massachusetts, or at such other place as shall have been mutually agreed upon by the Commonwealth and the Custodian. Simultaneously therewith, at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., bond counsel ("Bond Counsel") in Boston, Massachusetts, or such other place as shall have been mutually agreed upon by the Commonwealth, the Authority and the Custodian, the other applicable documents hereinafter mentioned shall be delivered and the Custodian shall pay the Net Proceeds to the Commonwealth as set forth on Exhibit A attached hereto in funds immediately available in Boston, Massachusetts on the Closing Date (such payment and delivery being referred to herein as the "Closing"), provided such payment shall be made only from funds available to the Custodian under the Custody Agreement. The Bonds will be made available at least twenty-four hours before the Closing Date for inspection.

(b) The Bonds shall be typewritten or printed or lithographed on steel engraved borders and will be delivered in the form of one registered bond for each maturity registered in the name of Bank of America (or its successor), as Custodian.

8. Each of the parties hereto has entered into this Bond Purchase Agreement in reliance upon the representations, warranties and agreements of the other parties contained herein and to be contained in the documents and instruments to be delivered at the Closing, and upon the performance by the other parties of their obligations hereunder, both as of the date hereof and as of the Closing Date. The Custodian's obligations under this Bond Purchase Agreement, and the Commonwealth's obligation to deliver the Bonds, shall be subject to the following conditions and to the Authority's performance of its obligations hereunder:

(a) The representations, warranties and agreements of the parties contained herein shall be true, complete and correct in all material respects as of the date hereof and on and as of the Closing Date, as if made on the Closing Date;

(b) The Finance Advisory Board shall have provided its conclusions with respect to its review of the Bonds pursuant to Section 98 of Chapter 6 of the Massachusetts General Laws, as amended by Section 1 of Chapter 10 of the Acts of 2009;

(c) [reserved];

(d) None of the following events shall have occurred at any time subsequent to the time of the Commonwealth's acceptance hereof and at or prior to the Closing:

(i) legislation is introduced in or enacted by the Congress of the United States, or passed by either House of the Congress, or recommended to the Congress or otherwise endorsed

for passage by the President of the United States, the Department of the Treasury of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation is favorably reported for passage to either House of the Congress by a committee of such House to which such legislation has been referred for consideration, or a decision by a court of the United States shall be rendered, or a regulation or filing shall be issued or proposed by or on behalf of the Department of the Treasury or the Internal Revenue Service of the United States, or other agency of the federal government having jurisdiction, or a release or official statement shall be issued by the President, the Department of the Treasury or the Internal Revenue Service of the United States with respect to federal taxation of interest received on obligations of the general character of the Bonds which materially adversely affects owners of the Bonds; or (ii) a stop order, ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds is in violation of any provisions of the Securities Act of 1933, as amended, or of the Trust Indenture Act of 1939, as amended; or (iii) legislation shall be enacted by, or a bill shall be favorably reported out of a committee to, either House of the Congress of the United States, or a decision by a court of the United States shall be rendered, or a ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made to the effect that securities of the Commonwealth or of any similar public body are not exempt from the registration, qualification or other requirements of the Securities Act of 1933, as amended, or the Trust Indenture Act of 1939, as amended; or (iv) an event shall occur which makes untrue or incorrect in any material respect, as of the time of such event, any statement or information contained in the Official Statement or which is not reflected in the Official Statement but should be reflected therein in order to make the statements contained therein not misleading in any material respect;

(e) at or prior to the Closing, the Authority, the Custodian and the Commonwealth shall have received each of the following documents:

(1) The Offering Statement and Information Statement, as it may have been amended or supplemented at or prior to the Closing;

(2) A certificate, dated the Closing Date, signed by the Attorney General of the Commonwealth, to the effect that the statements in Paragraph 4(g) hereof are true and correct and a certificate, dated the Closing Date, signed by the Executive Director of the Authority, to the effect that the statements made in Paragraph 5(e) hereof are true and correct;

(3) A certificate, dated the Closing Date, signed by the Treasurer and the Secretary of Administration and Finance of the Commonwealth and addressed to the Authority and its counsel, the Custodian, Bond Counsel, Edwards Angell Palmer & Dodge LLP, Special Program Counsel ("Special Program Counsel") and Mintz, Levin,

Cohn, Ferris, Glovsky and Popeo, P.C. ("Commonwealth Disclosure Counsel"), to the effect that (i) the representations and warranties of the Commonwealth contained in the Bond Purchase Agreement are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date, and (ii) except for the information in the Authority Portions or under the heading "OWNER ACCOUNT" in the 2010 Offering Statement or the heading "OWNER ACCOUNT" in Prior Offering Statements, as updated by the information contained under the heading "UPDATED INFORMATION RELATING TO OWNER ACCOUNT" in the 2010 Update (as to which no view need be expressed), to the best of their respective knowledge and belief (1) the Offering Statement (except for the Information Statement), as of the date thereof, as of the time of the Commonwealth's acceptance hereof, as amended or supplemented as required at all times subsequent to the Commonwealth's acceptance hereof up to and including the Closing Date as of the date of each such supplement or amendment, and at the Closing Date, did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading and (2) the Information Statement, as of May 1, 2010, and as supplemented or updated to and including the Closing Date, did not and does not, as of May 1, 2010, as of the date of each such supplement or updated version or as of the Closing Date, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading;

(4) The approving opinion of Bond Counsel, dated the Closing Date, in form and substance acceptable to the Authority and the Treasurer and addressed to the Treasurer, together with a letter of Bond Counsel dated the Closing Date addressed to the Authority and the Custodian to the effect that their approving opinion may be relied upon by the Authority and the Custodian to the same extent as if such opinion were addressed to them;

(5) A supplemental opinion or opinions of Bond Counsel, dated the Closing Date, and addressed to the Treasurer and the Secretary of Administration and Finance and to the Authority and the Custodian, to the following effects:

(i) this Bond Purchase Agreement has been duly authorized, executed and delivered by the Commonwealth and constitutes the legal, valid and binding agreement of the Commonwealth;

(ii) the Bonds comply with the provisions of the Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C;

(iii) the Bonds are exempt securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended, and Section 304(a)(4) of the Trust Indenture Act of 1939, as amended, and it is not necessary in connection with the sale of the Bonds to the public to register any security under the

Securities Act of 1933, as amended, or to qualify any indenture under the Trust Indenture Act of 1939, as amended; and

(iv) such counsel have rendered legal advice and assistance to the Commonwealth in the course of and have participated in the preparation of the Offering Statement and, based upon such participation, they are of the opinion that the information contained in the 2010 Offering Statement under the headings "THE BONDS AND THE TUITION CERTIFICATES", "TAX MATTERS", and "SECURITY FOR THE BONDS AND TUITION CERTIFICATES" and under such headings in the Prior Offering Statements, as updated by the information contained under the headings "TERMS OF THE BONDS AND TUITION CERTIFICATES" and "UPDATED INFORMATION RELATING TO TAX MATTERS" in the 2010 Update, does not contain any untrue statement of a material fact and does not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading; in addition, based upon such counsel's examination of the proceedings of the Commonwealth in connection with their opinion as to the validity of the Bonds and their participation in the preparation of the Offering Statement, as described in such opinion, and, although they are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of any other statements contained in the Offering Statement (and except for the Information Statement, the financial and statistical data included in the Offering Statement, the information contained in the Exhibits to the Offering Statement, and references to such information in the Offering Statement and the Information Statement, as to all of which no opinion need be expressed), (i) no facts have come to the attention of such counsel which would lead them to believe that the Offering Statement, as of the dates thereof and as of the date of the opinion, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(6) The opinion of Commonwealth Disclosure Counsel, dated the Closing Date, and addressed to the Treasurer, the Secretary of Administration and Finance, the Authority and the Custodian, to the effect that based upon their participation in the preparation of the Information Statement, as described in such opinion, and although they are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Information Statement (and except for the financial and statistical data included in the Information Statement, the information contained in the Exhibits to the Information Statement, and references to such information in the Information Statement, as to all of which no opinion need be expressed), no facts have come to the attention of such counsel which would lead them to believe that the Information Statement, as of May 1, 2010, and as supplemented and updated as required at all times subsequent thereto up to and including the Closing Date, as of the date of each such supplement or update, and as of the date of the opinion, contains any untrue statement of a

material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(7) The opinion of Special Program Counsel, dated the Closing Date, and addressed to the Treasurer, the Secretary of Administration and Finance, the Authority and the Custodian, to the effect that based upon their participation in the preparation of the Offering Statement, as described in such opinion, and although they are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Offering Statement (and except for the financial and statistical data included in the Offering Statement, the information contained in the Exhibits to the Offering Statement, and references to such information in the Offering Statement, as to all of which no opinion need be expressed), (i) no facts have come to the attention of such counsel which would lead them to believe that the Offering Statement (other than the Information Statement), as of the date thereof, and as supplemented and amended as required at all times subsequent thereto up to and including the Closing Date, as of the date of each such amendment or supplement, and as of the date of the opinion, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(8) The opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., counsel to the Authority ("Counsel to the Authority"), dated the Closing Date, to the following effect:

Such counsel have rendered legal advice and assistance to the Authority in the course of and have participated in the preparation of the Offering Statement and, based upon such participation, they are of the opinion that the information contained in the first three paragraphs of the 2010 Offering Statement and in the 2010 Offering Statement under the heading "GENERAL PROGRAM DESCRIPTION" and in the first three paragraphs of, and under the heading "GENERAL PROGRAM DESCRIPTION in, the Prior Offering Statements, as updated by the first paragraph of the 2010 Update, does not contain any untrue statement of a material fact and does not omit to state any material fact necessary to make the statement therein, in light of the circumstances under which they were made, not misleading; in addition, based upon their participation in the preparation of the Offering Statement, as described in such opinion, which participation and review was not intended to enable them to pass upon the accuracy, completeness or fairness of the statements contained in the Offering Statement, and although (except as described above) they are not passing upon and do not assume any responsibility for the accuracy or completeness of the statements contained in the Offering Statement (and except for the statements and the information contained in the Information Statement and references to such information in the Offering Statement, as to all of which no opinion need be expressed), no facts have come to the attention of such counsel which would lead them to believe that the Offering Statement, as of the date thereof, or the

Information Statement, as of its date, and, as supplemented and updated as required at all times subsequent thereto up to and including the Closing Date, as of the date of each such supplement or update, and as of the date of the opinion, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading;

(9) The opinion of Counsel to the Authority, dated the Closing Date, to the effect that (i) the offer and sale of the Tuition Certificates in the manner contemplated in the Custody Agreement and the Offering Statement: (a) are exempt from the registration requirements of Section 5 of the 1933 Act; (b) do not require registration of the Tuition Certificates under the Securities Exchange Act of 1934, as amended; (c) do not require any qualification of an indenture under the Trust Indenture Act of 1939, as amended; and (d) do not require registration of any person under or any exemption from the Investment Company Act of 1940, as amended and (ii) the federal and state income tax and gift tax consequences of ownership and disposition of Tuition Certificates are as described under the heading "TAX MATTERS" in the 2010 Offering Statement and under such heading in Prior Offering Statements as updated by the description under the heading "UPDATED INFORMATION RELATING TO TAX MATTERS" in the 2010 Update; and (iii) the Tuition Certificates and the Program described in the Offering Statement comply with the provisions of the Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C;

(10) A certificate, dated the Closing Date, signed by the Treasurer (i) setting forth facts, estimates and circumstances in existence on the Closing Date, sufficient to support the conclusion that it is not expected that the proceeds of the bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code, and the regulations, temporary regulations and proposed regulations under that section, and (ii) stating that, to the best of the knowledge and belief of the Treasurer, there are no other facts, estimates or circumstances that would materially affect such expectations;

(11) A certificate, dated the Closing Date, of the Treasurer as to the delivery of the Bonds and receipt of payment there for;

(12) A certificate, dated the Closing Date, signed by the Executive Director of the Authority and addressed to the Commonwealth, Bond Counsel, Special Program Counsel and the Custodian to the effect that, to the best of his knowledge and belief, the information in the 2010 Offering Statement under the headings "ALLOCATION OF TUITION CERTIFICATES; DEPOSIT REFUNDS"; "FEES"; "THE PROGRAM RECORDKEEPER"; and "CERTAIN INVESTMENT CONSIDERATIONS" and under the corresponding portions in the Prior Offering Statements as updated by the information under the headings "UPDATED INFORMATION RELATING TO PROGRAM RECORDKEEPER" and "UPDATED INFORMATION RELATING TO CERTAIN INVESTMENT CONSIDERATIONS" in the 2010 Update; and with respect to the

Program and the Tuition Certificates in the first three paragraphs of the 2010 Offering Statement and under the headings "GENERAL PROGRAM DESCRIPTION"; "THE BONDS AND THE TUITION CERTIFICATES"; "TAX MATTERS" and "SECURITY FOR THE BONDS AND TUITION CERTIFICATES" therein and in the corresponding portions of the Prior Offering Statements as updated by the information in the first paragraph of the 2010 Update and under the headings "TERMS OF THE BONDS AND TUITION CERTIFICATES" and "UPDATED INFORMATION RELATING TO TAX MATTERS" in the 2010 Update; and with respect to the Owner Account, under the heading "OWNER ACCOUNT" in the 2010 Offering Statement and under such heading in the Prior Offering Statements, as updated by the information contained under the heading "UPDATED INFORMATION RELATING TO OWNER ACCOUNT" in the 2010 Update (together, the "Authority Portions") as of the date of the Offering Statement, as of the time of the Commonwealth's acceptance hereof, as amended or supplemented as required at all times subsequent to the Commonwealth's acceptance hereof up to and including the Closing Date as of the date of each such supplement or amendment, and at the Closing Date, did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(13) Certified copies of a transcript of all proceedings relating to the authorization and issuance of the Bonds, of all Program Documents and of the Report;

(14) Such additional legal opinions, signatures, delivery of other certificates, and other instruments and documents as the Commonwealth, the Authority, the Custodian, their counsel or Special Program Counsel may reasonably request with respect to the Closing to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the representations and warranties of the Commonwealth and other parties contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the Commonwealth and other parties under this Bond Purchase Agreement.

All the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Bond Purchase Agreement shall be in form and substance satisfactory to Bond Counsel, to Special Program Counsel and to counsel to the Custodian.

9. If the Commonwealth shall fail to deliver the Bonds on the Closing Date, or if any of the parties hereto shall be unable to satisfy the conditions to the obligations of the Commonwealth, the Authority and the Custodian contained in this Bond Purchase Agreement or if the obligations of the parties hereto shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate, and none of the Authority or the Custodian or the Commonwealth shall be under further obligation hereunder, except the respective obligations of the Commonwealth and the Authority set forth in Paragraph 12 hereof shall continue in full force and effect.

10. If after the Closing and during the period ending on the date which is twenty-five (25) days following the Closing Date, any event affecting the Commonwealth or the Bonds shall occur of which the Commonwealth has actual knowledge or any event affecting the Program or the Tuition Certificates shall occur of which the Authority has actual knowledge, which, in the opinion of the Commonwealth or the Authority, would cause the Offering Statement or the Information Statement to contain an untrue statement of material fact or to be misleading in the light of the circumstances existing at the time it was delivered to a purchaser, the Commonwealth or the Authority, as applicable, will cooperate with the Commonwealth or the Authority and, at the written request of the either thereof, forthwith prepare and furnish to the requesting party at the expense of the Commonwealth or Authority, as applicable, a reasonable number of copies of an amendment of or supplement to the Offering Statement or Information Statement (in form and substance satisfactory to the Commonwealth and the Authority), which will amend or supplement the Offering Statement or Information Statement so that it will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Offering Statement or Information Statement was delivered to a purchaser, not misleading. For purposes of and during the period of time provided by this paragraph, the Commonwealth will furnish to the Authority such information as it may from time to time reasonably request, and the Authority will furnish to the Commonwealth such information as it may from time to time reasonably request.

11. At the Closing, contemporaneously with the receipt of the Bonds to be delivered at the Closing, the Custodian will deliver to you a receipt for the Bonds, in form satisfactory to Bond Counsel.

12. (a) Except as provided in subparagraph (c) of this Paragraph 12, neither the Authority nor the Custodian shall be under any obligation to pay, and the Commonwealth shall pay, all expenses incident to the performance of the Commonwealth's obligations hereunder, including but not limited to: (i) the cost of the preparation, typesetting, composition, printing and delivery of the Information Statement; (ii) the fees and disbursements of Bond Counsel and (iii) the fees and disbursements of Special Counsel.

(b) As between the Authority and the Commonwealth, the Authority shall pay: (i) all advertising expenses in connection with the public offering of the beneficial ownership interests in the Bonds; and (ii) all other expenses incurred in connection with the marketing of the Bonds and the development of the Program, including the fees and disbursements of Counsel to the Authority and the Custodian and of any other experts or consultants retained by the Authority.

(c) Notwithstanding the foregoing provisions of this Paragraph 12, if the Bonds shall be delivered to and accepted as provided in this Bond Purchase Agreement, all expenses of the Commonwealth enumerated in this Paragraph 12 to an amount in the aggregate not exceeding the amount shown on Exhibit A attached hereto, shall be deducted from the purchase price for the Bonds as provided in Exhibit A attached hereto and shall be applied by the Authority to the payment of such expenses.

13. The Commonwealth covenants and agrees to take all steps reasonably necessary to provide that the interest on the Bonds and Tuition Certificates whenever paid or accrued shall be excluded from the gross income of any person having an interest therein for federal income tax purposes. Each of the Authority and the Custodian agrees not to take any action that would impair the exclusion of the interest on the Bonds and Tuition Certificates whenever paid or accrued from the gross income of any person having an interest therein for federal income tax purposes. This covenant shall survive the delivery and purchase of the Bonds and of the Tuition Certificates and shall be subject to the qualifications set forth under the heading "TAX MATTERS" in the 2010 Offering Statement and under such heading in Prior Offering Statements as updated by the description under the heading "UPDATED INFORMATION RELATING TO TAX MATTERS" in the 2010 Update.

14. Neither the Commonwealth, nor any officer, agent or employee thereof, shall be charged personally by the Authority or Custodian or any of them with any liability, or held liable to said Authority or Custodian or any of them, under any term or provision of this Bond Purchase Agreement, or because of its execution or attempted execution, or because of any breach, or attempted or alleged breach, thereof.

15. Any notice to be given to the Commonwealth under this Bond Purchase Agreement may be given by delivering the same to The Honorable Timothy P. Cahill, Treasurer and Receiver-General of The Commonwealth of Massachusetts, State House, Boston, Massachusetts 02133, with a copy to the Secretary of Administration and Finance, Executive Office for Administration and Finance, at the same address, and any such notice to be given to the Authority may be given by delivering the same to Massachusetts Educational Financing Authority, 160 Federal Street, 4th floor, Boston, Massachusetts 02110, Attention: Executive Director; and to the Custodian by delivering the same to 225 Franklin Street, Boston, Massachusetts 02110, Attention: Institutional Custody.

16. This Bond Purchase Agreement is made solely for the benefit of the Commonwealth, the Authority and the Custodian (including their successors or assigns) and no other person shall acquire or have any right hereunder or by virtue hereof. All of the Commonwealth's representations, warranties and agreements contained in this Bond Purchase Agreement shall remain operative and in full force and effect, regardless of (i) any investigations made by or on behalf of the Authority or Custodian or (ii) delivery of and payment for the Bonds hereunder.

17. Any certificate signed by any official or representative of any of the parties hereto and delivered to any other party hereto under this Bond Purchase Agreement shall be deemed a representation and warranty by the certifying party to each such other party as to the truth of the statements therein made.

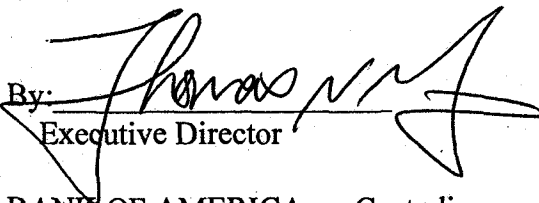
18. This Bond Purchase Agreement may be executed in counterparts, each of which shall be issued as original, all of which together shall constitute the same instrument. When each party hereto has signed at least one copy of such counterparts, this Bond Purchase Agreement shall be in effect.

19. This Bond Purchase Agreement shall be governed by and construed in accordance with the laws of the Commonwealth.


Very truly yours,

Date: November 30, 2010

MASSACHUSETTS EDUCATIONAL FINANCING
AUTHORITY

By: 
Executive Director

BANK OF AMERICA, as Custodian
for the Bonds

By: 

Name: Frances Lewis
Title: Trust Officer

The foregoing Bond Purchase Agreement
is hereby accepted as of November 30, 2010.

THE COMMONWEALTH OF MASSACHUSETTS

By: 

Timothy P. Cahill
Treasurer and Receiver-General

Approved:

By: 

Deval L. Patrick
Governor

EXHIBIT A

PURCHASE PRICE OF THE BONDS

Aggregate Principal Amount of Bonds	\$8,425,898.26**
Plus Accrued Interest*	<u>283.94</u>
Net Proceeds to the Commonwealth plus accrued interest*	<u>\$8,426,182.20**</u>

*Accrued interest from August 1, 2010 to Closing Date, to be measured, for purposes of establishing purchase price of the Bonds exclusively, as actual interest earnings from August 1, 2010 to Closing Date on investment of amounts received by the Authority under Participation Agreements for the purchase of Tuition Certificates.

TERMS OF THE BONDS

Dated Date: August 1, 2010

Annual Interest Rate:

- a) Accreting Component: a percentage equal to the annual percentage change in the Consumer Price Index - All Urban Consumers, all items ("CPI"), plus 2.00%, applied as of each August 1 to the accreted value of the Bonds as of the prior August 1 and payable at maturity. The CPI percentage change shall be measured based on the difference between the CPI published in the July immediately preceding each accretion date and the CPI published in July of the preceding year.
- b) Current Component: 0.50% per annum on the initial principal amount of the Bonds, payable each August 1 and February 1, beginning February 1, 2011.

Maturity Schedule:

Maturity Year (August 1)	Initial Principal Amount**
2015	\$1,850,896.66
2016	908,645.16
2017	615,213.08
2018	766,960.77
2019	578,388.22
2020	548,561.52
2021	427,521.91
2022	400,165.99
2023	329,729.00
2024	333,831.53
2025	335,151.50
2026	402,377.50
2027	518,821.26
2028	236,496.83
2029	118,102.33
2030	<u>55,035.00</u>
TOTAL	\$8,425,898.26

** The initial principal amount of the Bonds of any maturity shall be adjusted by such amount, if any, as may be specified in a written notice delivered no later than two business days preceding the Closing Date by the Authority to the other parties to this Bond Purchase Agreement, such amount not to exceed \$50,000 in any maturity. In the case of any such adjustment(s), the aggregate initial principal amount of the Bonds, and the net proceeds of the Bonds payable to the Commonwealth in accordance with this Exhibit A, shall be correspondingly adjusted.

December 1, 2010

Massachusetts Educational Financing
Authority
160 Federal Street, 4th floor
Boston, MA 02110

Edwards Angell Palmer & Dodge LLP
111 Huntington Avenue
Boston, MA 02199

Mintz, Levin, Cohn, Ferris, Glovsky
and Popeo, P.C.
One Financial Center
Boston, MA 02111

Bank of America, as Custodian
225 Franklin Street
Boston, MA 02110

RE: The Commonwealth of Massachusetts (the "Commonwealth") General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A (the "Bonds"), as described in the Program Description and Offering Statement dated May 1, 2010 and the Appendices attached thereto (the "2010 Offering Statement"), and the prior offering statements for the Program (the "Prior Offering Statements") as updated by an Update dated as of May 1, 2010 to Program Description and Offering Statement (the "2010 Update").

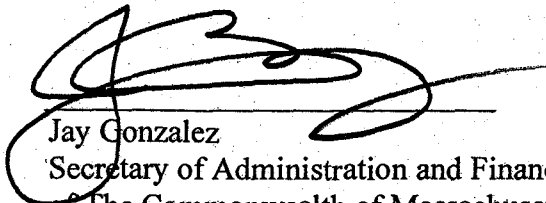
Dear Sir or Madam:

We, the undersigned, Timothy P. Cahill and Jay Gonzalez, hereby certify that we are the Treasurer and Receiver-General and the Secretary of Administration and Finance, respectively, of the Commonwealth. This certification refers to the 2010 Offering Statement and the Appendices attached thereto, the Prior Offering Statements as updated by the 2010 Update and to the Bond Purchase Agreement dated November 30, 2010, relating to the Bonds (the "Bond Purchase Agreement"). Capitalized terms that are defined in the Bond Purchase Agreement are used herein as so defined. We, the undersigned, hereby further certify as follows:

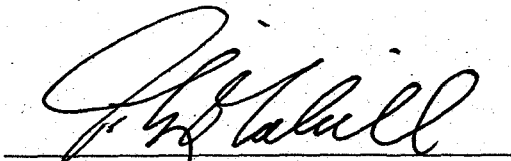
- (1) The representations and warranties of the Commonwealth contained in the Bond Purchase Agreement are true and correct in all material respects on and as of the date hereof as if made on the date hereof.

Massachusetts Educational Financing Authority
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
Edwards Angell Palmer & Dodge LLP
Bank of America
December 1, 2010
Page 2

- (2) Except for the information in the Authority Portions or under the heading "OWNER ACCOUNT" in the 2010 Offering Statement or the heading "OWNER ACCOUNT" in Prior Offering Statements, as updated by the information contained under the heading "UPDATED INFORMATION RELATING TO OWNER ACCOUNT" in the 2010 Update (as to which no view is expressed), to the best of our respective knowledge and belief, (i) the Offering Statement (except for the Information Statement), as of the date thereof, as of the time of the Commonwealth's acceptance of the Bond Purchase Agreement, and as of the date hereof, did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading and (ii) the Information Statement, as of May 1, 2010, and as supplemented or updated to and including the date hereof, did not and does not, as of May 1, 2010, as of the date of each such supplement or updated version or as of the date hereof, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading.



Jay Gonzalez
Secretary of Administration and Finance
of The Commonwealth of Massachusetts



Timothy P. Cahill
Treasurer and Receiver-General of
The Commonwealth of Massachusetts

December 1, 2010

Honorable Timothy P. Cahill
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House
Boston, MA 02133

Bank of America, as Custodian
225 Franklin Street
Boston, MA 02110

Honorable Jay Gonzalez
Secretary of Administration and Finance
The Commonwealth of Massachusetts
State House
Boston, MA 02133

Edwards Angell Palmer & Dodge LLP
111 Huntington Avenue
Boston, MA 02199

Mintz, Levin, Cohn, Ferris, Glovsky
and Popeo, P.C.
One Financial Center
Boston, MA 02111

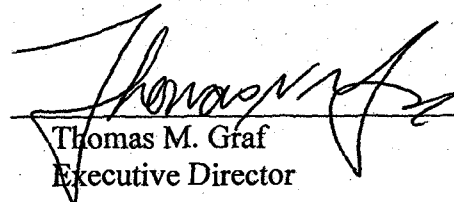
RE: The Commonwealth of Massachusetts (the "Commonwealth") General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A (the "Bonds"), as described in the Program Description and Offering Statement dated May 1, 2010 and the Appendices attached thereto (the "2010 Offering Statement"), and the prior offering statements for the Program (the "Prior Offering Statements") as updated by an Update dated as of May 1, 2010 to Program Description and Offering Statement (the "2010 Update").

Dear Sir or Madam:

I, the undersigned, Thomas M. Graf, hereby certify that I am the Executive Director of the Massachusetts Educational Financing Authority (the "Authority"). This certification refers to the 2010 Offering Statement and the Appendices attached thereto, the Prior Offering Statements as updated by the 2010 Update and the Bond Purchase Agreement dated November 30, 2010, relating to the Bonds (the "Bond Purchase Agreement").

Hon. Timothy P. Cahill
Hon. Jay Gonzalez
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
Bank of America
Edwards Angell Palmer & Dodge LLP
December 1, 2010
Page 2

I, the undersigned, hereby further certify, to the best of my knowledge and belief, the information in the 2010 Offering Statement (i) under the headings "ALLOCATION OF TUITION CERTIFICATES; DEPOSIT REFUNDS"; "FEES"; "THE PROGRAM RECORDKEEPER"; and "CERTAIN INVESTMENT CONSIDERATIONS" and under the corresponding portions in the Prior Offering Statements as updated by the information under the headings "UPDATED INFORMATION RELATING TO PROGRAM RECORDKEEPER" and "UPDATED INFORMATION RELATING TO CERTAIN INVESTMENT CONSIDERATIONS" in the 2010 Update; (ii) with respect to the Program and the Tuition Certificates in the first three paragraphs of the 2010 Offering Statement and under the headings "GENERAL PROGRAM DESCRIPTION"; "THE BONDS AND THE TUITION CERTIFICATES"; TAX MATTERS" and "SECURITY FOR THE BONDS AND TUITION CERTIFICATES" therein and in the corresponding portions of the Prior Offering Statements as updated by the information in the first paragraph of the 2010 Update and under the headings "TERMS OF THE BONDS AND TUITION CERTIFICATES" and "UPDATED INFORMATION RELATING TO TAX MATTERS" in the 2010 Update; and (iii) with respect to the Owner Account, under the heading "OWNER ACCOUNT" in the 2010 Offering Statement and under such heading in the Prior Offering Statements, as updated by the information contained under the heading "UPDATED INFORMATION RELATING TO OWNER ACCOUNT" in the 2010 Update (together, the "Authority Portions"), as of the date thereof, as of the time of the Commonwealth's acceptance of the Bond Purchase Agreement, and as of the date hereof, did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading.


Thomas M. Graf
Executive Director


THE COMMONWEALTH OF MASSACHUSETTS

CERTIFICATE OF THE GOVERNOR, TREASURER AND RECEIVER-GENERAL AND
SECRETARY

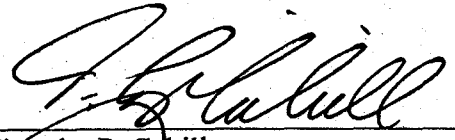
Re: The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan
of 2010, College Opportunity Bonds, Series A, dated August 1, 2010 (the "Bonds").

We, the undersigned, the Governor and Treasurer and Receiver-General of The
Commonwealth of Massachusetts (the "Commonwealth"), respectively, hereby certify as follows:

1. Our signatures, affixed below are set forth hereon to identify the signature or
facsimile signature which the Governor has caused to be affixed and the signature
which the Treasurer and Receiver-General has affixed to each Bond. Each Bond
bears a facsimile of the seal of the Commonwealth, which seal also is affixed hereto.
2. The Bonds have been awarded to Bank of America, as custodian, on the terms set
forth in the Bond Purchase Agreement for the Bonds, dated November 30, 2010,
approved and signed on November 30, 2010.
3. The form, date, maturities, interest rates and other details of the Bonds are hereby
approved.



Deval L. Patrick,
Governor of The
Commonwealth of Massachusetts

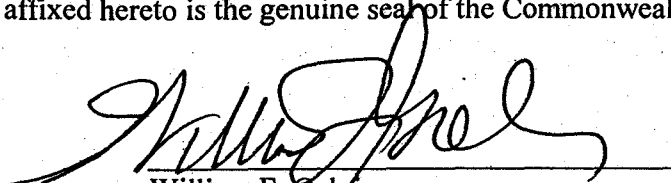


Timothy P. Cahill,
Treasurer and Receiver-General of
The Commonwealth of Massachusetts

Date: December 1, 2010

I, the undersigned, the Secretary of the Commonwealth, hereby certify that the signatures of
the Governor and the Treasurer and Receiver-General of the Commonwealth as appearing above are
the genuine signatures of the persons who held said offices when the Bonds were signed and when
the Bonds were delivered and that the seal affixed hereto is the genuine seal of the Commonwealth.

Date: December 1, 2010



William F. Galvin,
Secretary of The Commonwealth of
Massachusetts

SEAL



The Commonwealth of Massachusetts
William Francis Galvin, Secretary of the Commonwealth
Public Records Division

November 30, 2010

I hereby certify that it appears on record in this office that the following named persons are members of the **MASSACHUSETTS EDUCATIONAL FINANCING AUTHORITY**.

	<u>Appointed</u>	<u>Qualified</u>	<u>Expires</u>
Matthew P. Keswick	Nov. 16, 2006	Nov. 16, 2006	July 1, 2012
Gary Bailey	Mar. 5, 2009	Apr. 27, 2009	July 1, 2013
William J. Papp, Jr.	Mar. 15, 2004	May 11, 2004	April 1, 2008(Heldover)
Keith C. Shaughnessy	Aug. 11, 2005	Sept. 20, 2005	July 1, 2011
Mary Egan Boland	Jan. 7, 2009	Feb. 12, 2009	July 1, 2011
Gary E. Martinelli	Mar. 5, 2009	May 8, 2009	July 1, 2014

I further certify that the **Director of Economic Development** and the **Commissioner of Administration** serve as members Ex-Officio on the **MASSACHUSETTS EDUCATIONAL FINANCING AUTHORITY** and that said Authority appears to have been organized and the members thereof have been elected or appointed according to law.

In Testimony of Which, I have hereunto affixed the
Great Seal of the Commonwealth the date first
above written.



A handwritten signature in cursive script that reads "William Francis Galvin".

WILLIAM FRANCIS GALVIN
Secretary of the Commonwealth

GENERAL CERTIFICATE RELATING TO THE
COMMONWEALTH OF MASSACHUSETTS
GENERAL OBLIGATION BONDS, CONSOLIDATED LOAN OF 2010
COLLEGE OPPORTUNITY BONDS, SERIES A

A. We, Thomas M. Graf, Executive Director of the Massachusetts Educational Financing Authority (the "Authority") and Kathleen Mahoney, Secretary to the Board of the Authority, certify as follows:

(1) The Massachusetts Educational Financing Authority Act (the "Act"), as enacted by Chapter 803 of the Acts of 1981 and as amended by Chapter 356 of the Acts of 1982, Chapters 65, 189 and 463 of the Acts of 1984, Chapter 78 of the Acts of 1988, Chapter 655 of the Acts of 1989, Chapters 133 and 286 of the Acts of 1992 and Chapters 110 and 495 of the Acts of 1993, has not been modified, supplemented, amended or repealed in any way, except as aforesaid, as of the date hereof.

(2) No forfeiture, dissolution or other proceedings or legislative measures adversely affecting the Authority have been instituted by the Authority or, to our knowledge, against it or on its behalf, and the Authority, its corporate privileges and franchises are in good standing and the corporate and statutory power and authority of the Authority are in full force and effect under the laws of The Commonwealth of Massachusetts (the "Commonwealth").

(3) The duly appointed and sworn Members of the Authority, were on September 8, 1994 as follows:

<u>Name</u> <u>(Residence)</u>	<u>State Office</u>	
John R. Smith of Sudbury	--	
Tamara P. Davis of Boston	--	
Thomas O'Brien of Amherst	--	
John A. Curry of Boston	--	
William R. Durgin of Whitinsville	--	
Joseph F. Hunt of Wellesley	--	
Piedad F. Robertson of Charlestown	--	
Gloria Larson	Secretary of Economic Affairs	ex officio
Mark E. Robinson	Secretary of Administration and Finance	ex officio

(4) The principal officers of the Authority, their dates of election and the expiration of their terms of office are as follows:

<u>Name</u>	<u>Agency Office</u>	<u>Date of Election</u>	<u>Expiration of Term</u>
Keith C. Shaughnessy	Chairman	11/19/09	11/18/10*
William J. Papp, Jr.	Vice Chairman	11/19/09	11/18/10*
Thomas M. Graf	Executive Director		At the will of the Authority

* Will continue to serve until the Annual Meeting for 2010 is held.

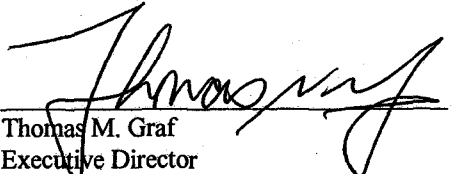
(5) Each of the undersigned certifies that (i) the signature of the other is true and genuine, (ii) that the persons named hold the respective offices, as indicated above, and (iii) that the seal set forth below is the duly adopted seal of the Authority.

(6) Attached hereto is a true and complete copy of the By-Laws of the Authority in effect on September 8, 1994 and on the date hereof.

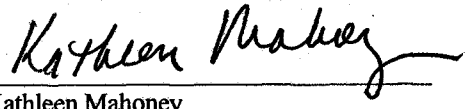
(7) Attached hereto is a true and correct copy of the resolution of the Authority adopted at the meeting of the Members of the Authority held on September 8, 1994 in its offices at 176 Federal Street, Boston, Massachusetts, at which a quorum was present and acting throughout, which resolution has not been modified, supplemented, amended or repealed in any way as of its date.

I further certify that said meeting of the Members was open to the public, that notice of said meeting was given to each of the Members and filed with the offices of the Secretary of State and the Executive Office for Administration and Finance for public posting at the times and in the manner required by law and the By-Laws of the Authority and remained so posted at the time of the meeting, that no deliberations or decisions in connection with the matters referred to in said minutes were taken in executive session, and that the official record of such meeting was made available to the public promptly and remains available to the public, all in accordance with G.L. c. 30A, §11A-1/2.

Dated: December 1, 2010


Thomas M. Graf
Executive Director

(Seal)


Kathleen Mahoney
Secretary

· ASSISTANT SECRETARY'S CERTIFICATE
OF
BANK OF AMERICA, NATIONAL ASSOCIATION

The undersigned, Elizabeth A. Pryor, an Assistant Secretary of BANK OF AMERICA, NATIONAL ASSOCIATION (the "Association"), a national banking association organized and existing under the laws of the United States of America having its principal place of business in the City of Charlotte, County of Mecklenberg, State of North Carolina, does hereby certify that:

1. The following is a true and correct copy of Article V, Section 2 of the By-Laws of the Association:

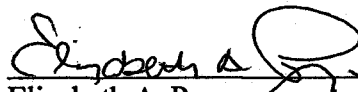
Execution of Instruments. All agreements, indentures, mortgages, deeds, conveyances, transfers, contracts, checks, notes, drafts, loan documents, letters of credit, guarantees, master agreements, swap agreements, security and pledge agreements, guarantees of signatures, certificates, declarations, receipts, discharges, releases, satisfactions, settlements, petitions, schedules, accounts, affidavits, bonds, undertakings, powers of attorney, and other instruments or documents may be signed, executed, acknowledged, verified, attested, delivered or accepted on behalf of the Association by the Chairman of the Board, the President, any Vice Chairman of the Board, any Division President, any Managing Director, any Principal, any Vice President, any Assistant Vice President, or any individual who is listed on the Association's personnel records in a position equal to any of the aforementioned officer positions, or such other officers, employees or agents as the Board of Directors or any of such designated officers or individuals may direct. The provisions of this Section 5.2 are supplementary to any other provision of these Bylaws and shall not be construed to authorize execution of instruments otherwise dictated by law.

2. The person named below is an officer of the Association, holding the title set opposite her name, and that the position held by this officer is equivalent to or above the officer position of Assistant Vice President

<u>Name</u>	<u>Title</u>
Frances Lewis	Custody Specialist I

IN WITNESS WHEREOF, the undersigned has duly executed this Certificate on the date and in the capacity set forth below.

Dated: November 30, 2010


Elizabeth A. Pryor
Assistant Secretary

THE COMMONWEALTH OF MASSACHUSETTS

General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A

Dated August 1, 2010

CERTIFICATE AS TO TAX MATTERS

On behalf of The Commonwealth of Massachusetts (the "Commonwealth"), the undersigned Treasurer and Receiver-General of the Commonwealth hereby certifies as follows with respect to the Commonwealth's \$8,425,898.26 General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A, dated August 1, 2010 (the "Bonds"):

1. The undersigned is an officer of the Commonwealth responsible under the applicable statutes for issuing the Bonds. This certificate as it relates to arbitrage is made under Section 1.148-2(b)(2)(i) of the Treasury Regulations (the "Regulations") promulgated in connection with Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and also states the reasonable expectations as of the date hereof with respect to private activity, pursuant to Regulations, Section 1.141-2(d). It is delivered as a part of the transcript of proceedings and accompanying certificates pertaining to the Bonds.
2. Simultaneously with the delivery of this certificate, the Commonwealth is issuing and delivering the Bonds, the purpose of which is to provide funds to reimburse the Commonwealth for prior expenditures with respect to certain capital projects as described in Schedule A attached hereto. The Bonds are being issued pursuant to the provisions of

(i) Section 49C of Chapter 29 of the Massachusetts General Laws; (ii) Chapter 15C of the Massachusetts General Laws; and (iii) specific bond authorizations as set forth in Schedule A. This Certificate sets forth the facts, estimates and circumstances now in existence which are the basis for the Commonwealth's expectations with respect to the use of the proceeds of the Bonds. To the best knowledge and belief of the undersigned, such expectations are reasonable and there are no other facts, estimates or circumstances that would materially change such expectations.

3. The Bonds are being issued to Bank of America, as custodian for the benefit of participants of The U.Plan: The Massachusetts College Savings Program (the "Program") administered by the Massachusetts Educational Financing Authority (the "Authority"). To facilitate the goals of the Program, the Bonds bear deferred interest at a variable rate equal to the percentage change in the Consumer Price Index plus 2% together with current interest at the rate of 0.5%. Under the Program, beneficial owners of the Bonds assign their current interest payment and, in certain circumstances, a portion of their variable interest payment to the Authority to pay certain expenses of the Program.
4. All of the Bonds were sold at par. The aggregate amount of proceeds received by the Commonwealth from the sale of the Bonds will be \$8,426,182.20 (the "Net Proceeds") consisting of \$8,425,898.26 par amount plus accrued interest in the amount of \$283.94.
5.
 - a. Net Proceeds in the amount of \$8,425,898.26 will be allocated to the specific bond authorization set forth in Schedule A attached hereto, and will be used to

reimburse the Commonwealth within 30 days for prior expenditures made during the fiscal year with respect to the capital projects.

- b. The amount of \$283.94 (the "Accrued Interest") will be deposited in a separate account and used within six months from the date hereof to pay interest on the Bonds.
6. With respect to the amounts described in paragraph 5a, the Commonwealth, by its Comptroller, has rendered its certificate with respect to declarations of official intent to reimburse the expenditures with proceeds of debt to be incurred by the Commonwealth, and such certificate is attached hereto as Schedule B. Such certificate establishes that unreimbursed expenditures with respect to the Sub Funds described in Schedule A exceed the aggregate Net Proceeds.
7. The principal amounts borrowed as described in paragraph 5a will not exceed the amounts necessary for the purposes described in those paragraphs.
8. The amount of proceeds described in paragraph 5a, to the extent not used immediately to reimburse the Commonwealth for prior expenditures, may be invested without regard to yield in reliance on the temporary period described in Section 1.148-2(e)(2) of the Regulations.
9. Until the Accrued Interest is expended as described in paragraph 5b, it will be invested

without regard to yield in reliance on the temporary period provided under Treasury Regulations, Section 1.148-2(e)(5)(ii).

10. No sinking fund, debt service fund or similar fund is or will be established to pay the principal of or interest on the Bonds, and no fund is or will be pledged as collateral for the Bonds or to secure such reimbursements
11. The Bonds were sold, pursuant to a Bond Purchase Agreement among the Commonwealth, the Authority and Bank of America, on November 30, 2010. There are no other tax-exempt bonds which (i) were sold within 14 days of the sale of the Bonds, (ii) share a common plan of financing with the Bonds, and (iii) are reasonably expected to be paid out of substantially the same source of funds. As part of its commercial paper programs, the Commonwealth issues short-term commercial paper notes which are current refunded multiple times as part of such programs. Any such refunding notes issued during the period described in the first sentence of this paragraph 11 are part of the Commonwealth's Series H commercial paper program, treated as having an issue date of December 29, 2009, pursuant to Regulations, Section 1.150-1(c)(4)(ii)(A), which issue date and the applicable sale date are not within 14 days of the sale date of the Bonds. In addition, the Commonwealth sold taxable general obligation bonds on November 23, 2010 to provide funds for capital expenditures. Such bonds are not treated as part of the same issue as the Bonds, pursuant to Regulations, Section 1.150-1(c)(2).
12. No portion of the proceeds of the Bonds will be used as a substitute for any fund which

was otherwise intended to be used to pay the cost of any project financed by the Bonds and which has been or will be used to acquire directly or indirectly obligations producing a yield which is materially higher than the yield on the Bonds. The weighted average maturity of the Bonds is 9.42 years and does not exceed 120 percent of the average reasonably expected economic life of the capital projects financed by the Bonds.

13. The Commonwealth has not entered into any hedging transaction with respect to the interest rate on the Bonds, nor has it any plan to enter into any such transaction.
14. Bonds issued to provide proceeds are not "hedge bonds" as defined in Section 149(g) of the Code because of the spending expectations and investment covenants described herein.
15. Except as permitted under Section 149(b) of the Code, the payment of principal or interest with respect to the Bonds is not and will not be guaranteed, in whole or in part, directly or indirectly, by the United States or any agency or instrumentality thereof; nor will any of the proceeds of the Bonds be used in making loans the principal or interest of which is so guaranteed.
16. a. No more than 10% of the proceeds of the Bonds will be used for any "private business use" as such term is used in Section 141(b) of the Code. In addition, the payment of the principal of or interest on proceeds of the Bonds which amount to more than 10% of such proceeds (under the terms of the bonds or any underlying


arrangement) is not directly or indirectly (A) secured by any interest in (1) property used or to be used for a private business use or (2) payments in respect of such property or (B) to be derived from payments (regardless of to whom made) in respect of property, or borrowed money, used or to be used for a private business use. For the purposes of clause (B) hereof, payments by a person for a use of proceeds are allocable to the payment of the debt service on the proceeds used by such person to the extent that the present value of such payments does not exceed the present value of the debt service on such proceeds.

- b. In addition, the representations made in paragraph 16a would be true and accurate if 5% were substituted for 10%, and if there were taken into account only (A) the proceeds of the Bonds which are to be used for any private business use which is not related to any governmental use of such proceeds, (B) disproportionate related private business use of proceeds of the Bonds, and (C) private payments, property, and borrowed money with respect to any such uses of proceeds as described in (A) and (B).
- c. Notwithstanding compliance with the foregoing percentage limitations, if any proceeds of the Bonds are used for a private business use pursuant to paragraph 16(a), or if there are any proceeds as to which there are private payments, property or borrowed money as described in paragraph 16(b), the lesser of the two amounts shall not exceed \$15,000,000.
- d. Direct or indirect loans in excess of the lesser of 5% of the proceeds of the Bonds or \$5,000,000 will not be made to persons other than "governmental units" as such term is used in Section 141(c) of the Code.

17. Additional facts relating to each project or group of projects to be financed by the Bonds are set forth in Schedule A hereto and are incorporated by reference herein.
18. Based upon the foregoing, it is not expected that the proceeds of the Bonds will be used in a manner that would cause the Bonds to be "private activity bonds" under Section 141 of the Code or "arbitrage bonds" under Section 148 of the Code.
19. The undersigned has covenanted on behalf of the Commonwealth to take all steps reasonably necessary to provide that the interest on the Bonds whenever paid or accrued shall be excluded from the gross income of any person having an interest therein for federal income tax purposes.

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IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the date set forth below.



Timothy P. Cahill
Treasurer and Receiver-General

Dated: December 1, 2010

Schedule A

THE COMMONWEALTH OF MASSACHUSETTS

General Obligation Bonds,

Consolidated Loan of 2010,

College Opportunity Bonds, Series A

1. Highway Improvement Loan Act of 2007.

Acts of 2007, Chapter 27, Section 7

Sub Fund (211-527C)

2. Transportation Improvement Loan Act of 2008.

Acts of 2008, Chapter 86, Section 24

Sub Fund (211-549C)

Divider



The Commonwealth of Massachusetts
Office of the Comptroller
One Ashburton Place, Room 901
Boston, Massachusetts 02108

MARTIN J. BENISON
COMPTROLLER

PHONE: (617) 727-5000
FAX: (617) 727-2163
INTERNET: <http://www.mass.gov/osc>

DECLARATION OF OFFICIAL INTENT

The undersigned, Comptroller of The Commonwealth of Massachusetts (the "Commonwealth"), hereby states the following:

1. This shall constitute a "Declaration of Official Intent" pursuant to the provisions of Section 1.150-2 of U.S. Department of Treasury Regulations.
2. The Commonwealth expects to spend amounts on deposit in its General Fund to pay the costs of Capital expenditures (the "Expenditures") in the amounts and for the purposes as described in the reports referred to in Schedule A hereto. The Commonwealth reasonably expects to reimburse itself for all such Expenditures with the proceeds of debt to be incurred by the Commonwealth. The amount of such Expenditures is the maximum principal amount of debt the Commonwealth intends to issue for each such purpose. The maximum principal amount of bonds expected to be issue under each bond authorized to which such Expenditures relate is set forth on Schedule B hereto.

In Witness Whereof, the undersigned has executed this Declaration of Official Intent this 16th day of Nov. 2010.

THE COMMONWEALTH OF MASSACHUSETTS

BY:

Martin J. Benison
Comptroller

SCHEDULE A

The following reports are available for public inspection at the Office of the Comptroller, One Ashburton Place, Room 909, Boston MA 02108 and are hereby incorporated in the Declaration of Official Intent by reference:

1. Amount of Expenditures to be reimbursed by debt. Such amounts are set forth in the following reports:

Warrant Analysis by Appropriation Type (Capital Expenditures)
Summary of Warranted Payments by Fund
Detail Monthly Warranted Payments by Fund/Class

MMARS Report NAP625W
MMARS Report NAP627WS
MMARS Report NAP627WD

2. Purpose of Expenditures. The Expenditures Classification Handbook outlines a description of expenditures incorporated herein by reference.

SCHEDULE B- BONDS AUTHORIZED AND UNISSUED AS OF:

Month Nov. Day 10th 2010 MMARS REPORT NGA265S

SCHEDULE C-BOND FUNDS

Fund - 182	<u>Capital Expenditure Reserve Fund</u> Established for the purpose of recording Central Artery / Third Harbor Tunnel expenditures funded by revenues received from the Massachusetts Turnpike Authority and the Massachusetts Port Authority.
Fund - 200	<u>General Capital Projects</u> Various purpose capital projects which include asbestos removal from schools, pier redevelopment, water pollution control facilities, public housing, public buildings, correctional facilities, environmental facilities, airport facilities, cultural facilities, and mass transit all as more particularly described in Schedule B above.
Fund - 201	<u>Capital Investment Trust Fund</u> Various purpose capital projects which includes appropriations for infrastructure, economic development, information technology and housing. These appropriations are funded by transfers of operating surpluses.
Fund - 202	<u>Capital Reserve Offset Fund</u> Surplus operating revenue as determined by the Comptroller in accordance with Section 5C of Chapter 29 MGL, to be applied in various bond authorizations in lieu of proceeds from the issuance of long term debt.
Fund - 203	<u>Boston Convention and Exhibition Center Fund</u> Various convention center projects includes Boston convention center project, Springfield Civic Center, Worcester Convention Center, basketball hall of fame all as more particularly described in Schedule B above.
Fund - 204	<u>Capital Improvement and Investment Trust Fund</u> Various purpose capital projects which includes appropriations for infrastructure, economic development, information technology and housing. Transfers of operating surpluses fund these appropriations.
Fund - 210	<u>Highway Capital Projects</u> Various highway and related transportation projects, all more particularly described in Schedule B above.
Fund - 220	<u>Inland Fish and Game Capital Projects</u> Various fish and game capital projects, all as more particularly described in Schedule B above.
Fund - 230	<u>State Recreation Area Capital Projects</u> Various capital projects for recreation areas within the Commonwealth, all as more particularly described in Schedule B above.
Fund - 240	<u>Metropolitan Parks Capital Projects</u> Various parks projects within the metropolitan Boston area, all as more particularly described in Schedule B above.
Fund - 270	<u>General Obligation Federally Assisted Housing</u> Various federally assisted housing projects, all more particularly described in Schedule B above.
Fund - 271	<u>Local Aid Capital Projects</u> Various projects for municipalities including schools, highway improvements, library facilities, water pollution abatement, solid waste facilities, community development facilities, and courthouse facilities, all more particularly described in Schedule B above.
Fund - 272	<u>Locking Facilities</u> Various correctional facilities, all as more particularly described in Schedule B above.
Fund - 273	<u>Suffolk County Jail</u> Construction of new Suffolk County Jail, all as more particularly described in Schedule B above.
Fund - 274	<u>County Correctional Institution</u> County correctional facilities, as more particularly described in Schedule B above.
Fund - 275	<u>Local Infrastructure</u> Various municipal capital projects, all as more particularly described in Schedule B above.
Fund - 276	<u>Water Pollution Control</u> Various water pollution control projects, all as more particularly described in Schedule B above.
Fund - 278	<u>Government Land Bank</u> Various capital projects for the Massachusetts Government Land Bank, all as more particularly described in Schedule B above.
Fund - 279	<u>Environmental Challenge</u> Various environmental facilities, all more particularly described in Schedule B above.
Fund - 280	<u>Intercity Bus Capital Projects</u> Various intercity bus capital projects, all as more particularly described in Schedule B above.

CERTIFICATE CONCERNING LITIGATION

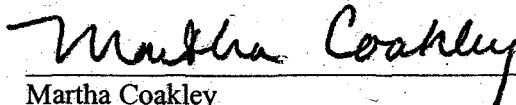
Re: \$8,425,898.26 The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A dated August 1, 2010 (the "Bonds").

The undersigned, Martha Coakley hereby certifies that she is the Attorney General of The Commonwealth of Massachusetts (the "Commonwealth"). Reference is made to the Bond Purchase Agreement between the Commonwealth, the Massachusetts Educational Financing Authority and Bank of America, as Custodian, dated November 30, 2010, (the "Bond Purchase Agreement"); the Program Description and Offering Statement relating to the Bonds dated May 1, 2010 (the "Offering Statement"); and the Commonwealth's Information Statement dated June 8, 2010, as supplemented or updated (the "Information Statement"). This certificate is rendered pursuant to Paragraph 8(e)(2) of the Bond Purchase Agreement.

I certify on behalf of the Department of the Attorney General that, as of the date hereof, the following statements are true and correct:

No litigation is pending or, to the knowledge of the undersigned, threatened, seeking to enjoin the issuance, sale, execution and delivery of the Bonds or the execution, delivery or performance of the Bond Purchase Agreement, or in any way contesting or affecting the validity of or security for the Bonds or the levy or collection of any material portion of the taxes or other revenues of the Commonwealth (except as described in the Information Statement under the heading "Legal Matters"), or contesting in any way the completeness, accuracy, or fairness of the Offering Statement or the Information Statement or contesting the title to his or her office of any Commonwealth official signing the Bonds.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the 1st day of December, 2010.


Martha Coakley
Attorney General of The Commonwealth
of Massachusetts

CERTIFICATE CONCERNING LITIGATION

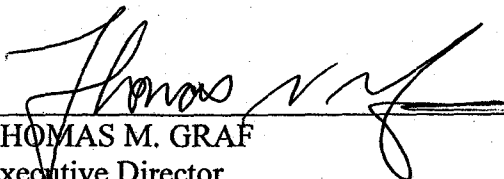
Re: The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A dated August 1, 2010 (the "Bonds").

The undersigned, Thomas M. Graf, hereby certifies that he is the Executive Director of the Massachusetts Educational Financing Authority (the "Authority"). Reference is made to the Bond Purchase Agreement between The Commonwealth of Massachusetts, the Authority and Bank of America, as Custodian, dated November 30, 2010 (the "Bond Purchase Agreement") and the Program Description and Offering Statement relating to the Bonds dated May 1, 2010 (the "Offering Statement"). This certificate is rendered pursuant to Paragraph 8(e)(2) of the Bond Purchase Agreement.

I certify on behalf of the Authority that, as of the date hereof, the following statements are true and correct:

No litigation is pending against the Authority or, to the knowledge of the undersigned, threatened, seeking to enjoin the issuance, sale, and delivery of the Tuition Certificates or the execution, delivery or performance of the Bond Purchase Agreement or any Program Document, or contesting in any way the completeness, accuracy, or fairness of the Offering Statement or any aspect of the Program.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the 1st day of December, 2010.


THOMAS M. GRAF
Executive Director
Massachusetts Educational Financing Authority

CERTIFICATE AS TO ALLOCATION OF BOND PROCEEDS

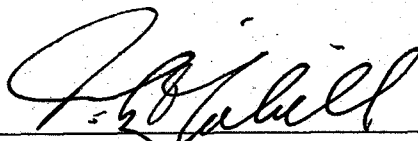
The undersigned, Timothy P. Cahill, Treasurer and Receiver-General of The Commonwealth of Massachusetts (the "Commonwealth"), hereby certifies as follows:

1. The Commonwealth is issuing, as of the date hereof, its \$8,425,898.26 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A dated August 1, 2010 (the "Bonds"). Pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws, as amended, the Bonds are being consolidated and the proceeds of the Bonds are being allocated to one or more of the various bond authorizations described on Schedule A hereto.

2. In accordance with the provisions of said Section 49, that portion of the proceeds of the Bonds as described on Schedule B hereto shall be allocated as of the date hereof to the reporting categories as described on Schedule B hereto in order to reimburse the Commonwealth for previously expended amounts shown on Schedule B hereto. Such expenditures have not been previously allocated proceeds of any bonds issued by the Commonwealth.

3. In accordance with the provisions of said Section 49, that portion of the proceeds of the Bonds not described in Schedule B will be allocated to one or more of the reporting categories described in Schedule A hereto subsequent to the date hereof as expenditures are made, subject to the approval of bond counsel.

IN WITNESS WHEREOF, the undersigned has executed this certificate this 1st day of December, 2010.



Timothy P. Cahill
Treasurer and Receiver-General of
The Commonwealth of Massachusetts

Schedule A

THE COMMONWEALTH OF MASSACHUSETTS

General Obligation Bonds,

Consolidated Loan of 2010,

College Opportunity Bonds, Series A

3. Highway Improvement Loan Act of 2007.

Acts of 2007, Chapter 27, Section 7

Sub Fund (211-527C)

4. Transportation Improvement Loan Act of 2008.

Acts of 2008, Chapter 86, Section 24

Sub Fund (211-549C)

Schedule B

Proceeds of the Bonds to be allocated to the bond funds described in Schedule A as of December 30, 2010:

1. Highway Improvement Loan Act of 2007.
Sub Fund (211-527C) \$4,000,000.00
2. Transportation Improvement Loan Act of 2008.
Sub Fund (211-549C) \$4,425,898.26

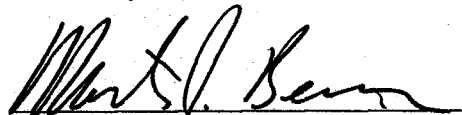
CERTIFICATE OF THE COMPTROLLER

RE: The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A dated August 1, 2010 (the "Bonds").

I, the undersigned, Martin J. Benison, hereby certify that I am the Comptroller of The Commonwealth of Massachusetts (the "Commonwealth") and, in connection with the issuance of the Bonds, hereby certify as follows:

1. The attached Exhibit A of bond funds of the Commonwealth was prepared in the Office of the Comptroller from records maintained therein.
2. The column captioned "Net Liquid Assets" on the attached Exhibit A indicates, where the amount is followed by the designation "-", an amount of money which, as of November 17, 2010, has actually been expended from the General Fund of the Commonwealth on projects authorized to be financed from the Sub Fund in question and for which no notes have been issued.
3. With respect to the amounts referred to in paragraph 2 hereof, the Commonwealth intended to reimburse itself from the proceeds of the sale of bonds issued for such purposes. All such expenditures were made after the Commonwealth issued a Declaration of Official Intent through the Comptroller in the form attached hereto as Exhibit B (in each case relating to weekly expenditures to be made from the Commonwealth's General Fund) and each such Declaration of Intent was available for inspection by the general public at the office of the Comptroller of the Commonwealth. Such expenditures were made after June 1, 2009.
4. The Office of the Comptroller provides the Office of the Treasurer and Receiver-General of the Commonwealth (the "Treasurer's Office") with a Monthly Bond Fund Report (NGA 264SD) that describes the detail of expenditures by Sub Fund that have occurred within the previous 18-month period from the date of such report. The Treasurer's Office may rely on such report to determine the actual date of expenditures for reimbursement purposes.
5. The column captioned "Authorized and Unissued" on the attached Exhibit A indicates, for a particular Sub Fund, the amount, as of November 17, 2010, of authorized but unissued bonds of the Commonwealth relating to such Sub Fund less the amount of any appropriations relating to such bond authorization which have expired or reverted and less the amount of any federal or other revenues which have been received by the Commonwealth and credited to such Sub Fund to finance projects relating to such Sub Funds.

IN WITNESS WHEREOF, the undersigned has hereby executed this Certificate as of the 1st day of December, 2010.



Martin J. Benison
Comptroller of The Commonwealth of
Massachusetts

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
 RUN DATE: 11-17-2010
 RUN TIME: 06:09:51

PAGE : 1

BONDS AUTHORIZED AND UNISSUED
 THROUGH PERIOD 5, FY 2011

FUND: 0200 General Capital Projects Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
0006	0006	\$0.00	\$0.00	\$0.00	\$371.12	\$0.00
0007	CHILD WELFARE INFOSYS A95C96S5	\$0.00	\$0.00	\$146,309.44	\$146,309.44	\$0.00
0010	WATER POLLUTION CONTROL82	\$0.00	\$0.00	\$0.00	\$20,148,790.73	\$0.00
0011	STATE ARMORY LOAN 1982	\$1.00	\$0.00	\$0.00	\$338,406.62	\$0.00
0013	0013	\$0.00	\$0.00	\$0.00	\$300.00	\$0.00
0026	0026	\$0.00	\$0.00	\$0.00	\$50,000.00	\$0.00
0042	ENERGY CONSERV BD A83C700	\$0.00	\$0.00	\$0.00	\$34,005.67	\$0.00
005C	ACTS OF 1995 CH.263 S.3	\$0.00	(\$92.50)	\$0.00	\$3,515,057.92	\$0.00
0069	PARKING FACIL.LOAN 1980	\$0.00	\$0.00	\$0.00	\$22,779,384.57	\$0.00
007C	ACTS OF 1995 CH.277 S.5	\$3,844,567.21	\$2,751,787.81	(\$1,292,974.21)	\$5,977,842.92	\$0.00
0084	0084	\$0.00	\$0.00	\$511,164.49	\$0.00	\$0.00
0089	CAP.OUTLAY LOAN ACT 1978	\$0.00	\$0.00	(\$85.16)	\$0.00	\$0.00
008C	ACTS OF 1995 CH.277 S.11	\$0.00	\$0.00	(\$5.95)	\$0.00	\$0.00
0090	CAPITAL OUTLAY LOAN 1979	\$0.00	\$0.00	\$0.00	\$21,000.00	\$0.00
0092	CAPITAL OUTLAY LOAN 1980	\$0.00	\$0.00	\$0.00	\$6,328.36	\$0.00
0097	0097	\$0.00	\$0.00	\$0.00	\$1,156,105.00	\$0.00
0099	0099	\$0.00	\$0.00	\$0.00	\$10,000,000.30	\$0.00
0103	0103	\$0.00	\$0.00	\$0.00	\$0.04	\$0.00
010C	ENV.ENH.&OPSP&ACQ&PRESA96C15S3	\$0.00	\$4,674.78	(\$38,491.78)	\$887,442.00	\$0.00
0119	GREYLOCK GLEN DEV.LN.1985	\$89,821.14	\$29,244.91	(\$6,950.00)	\$2,713,543.01	\$0.00
011C	ENV ENH&OPSPC&ACQ&PRESA96C15S2	\$0.00	\$0.00	(\$3,490,395.83)	\$7,303,759.76	\$0.00
0123	CH 123A 06S2BNONTAX	\$970,337.25	\$76,992.53	\$0.00	\$89,547,329.78	\$0.00
0126	DMH CAP OUTLAY A1987 C167 S.5	\$3,331,831.80	\$17,257.05	\$0.00	\$5,470,365.38	\$0.00
0127	CAPITL OUTLAY LN A87 C199 S127	\$0.00	\$0.00	\$0.00	\$175,203.89	\$0.00
0128	CAP OUT REPAIR LA87 C199 S129	\$0.00	\$0.00	(\$2,030.14)	\$0.00	\$0.00
012C	CRIMJUS.YTHSER&PRSEXP.A96C12S3	\$1,205,470.99	\$1,212,375.85	(\$954,348.69)	\$33,573,258.00	\$0.00
0133	HSG PRESV NGHBD DEV A93C494S6	\$17,576,444.77	\$151,979.32	(\$57,709.32)	\$17,958,395.78	\$0.00
013C	SEAPORT REVIL.LOAN A96C28S3	\$0.00	\$0.00	(\$3,495.11)	\$46,167,341.92	\$0.00

Exhibit A

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
 RUN DATE: 11-17-2010
 RUN TIME: 06:09:51

PAGE : 2

BONDS AUTHORIZED AND UNISSUED
 THROUGH PERIOD 5, FY 2011

FUND: 0200 General Capital Projects Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
0140	TRANSP DEVEL & IMP. A94C273S2D	\$0.00	\$0.00	\$0.00	\$47,818,217.85	\$0.00
0142	TRANSP DEVEL & IMP. A94C273S2G	\$13,383.73	\$5,706.03	(\$2,049.68)	\$2,794,705.90	\$0.00
0144	HI ED CAP.OUTLAY LN A95C267S3	\$3,503,572.68	\$3,142,176.50	(\$3,075,332.42)	\$39,365,979.77	\$0.00
0145	CAP OUT EQP REPLMT A86 C206S77	\$0.00	\$0.00	\$0.00	\$12,595.04	\$0.00
0148	0148	\$0.00	\$0.00	\$0.00	\$0.64	\$0.00
014C	COMM.RAIL.CAP.ENHNCMT A96C28S5	\$0.00	\$0.00	\$0.00	\$35,000,000.00	\$0.00
0150	PUBLIC HOUSING LOAN A87C226S4	\$248,480.00	\$0.00	\$0.00	\$259,972.77	\$0.00
0153	ENERGY CONSERVATN BD A87C670S3	\$0.00	\$0.00	\$0.00	\$697,408.10	\$0.00
0161	RAIL TRANS LN A88 C15 S27	\$0.00	\$0.00	\$289.76	\$682,392.51	\$0.00
0170	HIGHER ED FACIL LN A88C208S7	\$0.00	\$0.00	\$0.00	\$18,300,422.90	\$0.00
0173	CAP REP+CONST LN A88C208S17	\$0.00	\$0.00	\$1,089.41	\$1,190,412.01	\$0.00
0176	CAPITAL OUTL LN A88C164S94	\$2,000.00	\$15,400.00	(\$15,400.00)	\$1,752,645.49	\$0.00
0177	CAPITAL OUTL LN A88C164S95	\$0.00	\$0.00	\$0.00	\$3,489,255.30	\$0.00
017C	INFO TECH LN (2) A96C294S3	\$0.00	\$0.00	\$0.00	\$69,064.26	\$0.00
0194	STATE HSE REN & IMP A92C69S19	\$4,959,406.55	\$1,869,207.28	(\$711,639.72)	\$6,867,289.01	\$0.00
0196	WEL ELG CPT SYS DEV LA92C194S4	\$0.00	\$0.00	\$0.00	\$2,933,787.26	\$0.00
0198	CAPITAL REPAIRS & IMPROVEMENTS	\$1,033,420.00	\$16,872.08	(\$4,356.69)	\$11,358,751.52	\$0.00
019C	RAIL TRNSP.LNA96C205S15	\$4,732.55	(\$5,381.45)	\$0.00	\$132,162.97	\$0.00
020C	AIRPORT CAP.OUTLAY A96C205S17	\$1,214,878.26	\$134,274.50	(\$115,846.73)	\$31,511,776.13	\$0.00
023C	METRO ST.HOSP.REDEV.LN OF 1996	\$0.00	\$0.00	\$146,310.09	\$233,142.76	\$0.00
027C	Capital Expenditure Act of 200	\$19,101,428.33	\$1,883,475.90	(\$1,755,933.84)	\$100,633,312.27	\$0.00
031C	ECON.DEV.FACILITIES A97C152S14	\$0.00	\$0.00	\$0.00	\$44,392,221.31	\$0.00
035C	HSING PRSV & NBHD LN S3C257A98	\$12,136.00	\$0.00	\$0.00	\$11,798.71	\$0.00
036C	SUFFOLK COURTHOUSE EXTERIOR	\$21,399.86	\$11,468.03	(\$348,792.15)	\$5,064,734.24	\$0.00
040C	C55S4A99HWYCAPIMPLN	\$0.10	\$0.00	(\$49.00)	\$26,950,154.10	\$0.00
045C	A2000C237S5	\$86,658.34	\$2,598.64	(\$25,759.36)	\$277,094.20	\$0.00
046C	A2000C237S6	\$3,228.15	\$5,673.95	(\$5,673.95)	\$1,607,076.02	\$0.00
047C	A2000C238S5	\$108,516.60	\$0.00	\$0.00	\$762,155.19	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
 RUN DATE: 11-17-2010
 RUN TIME: 06:09:51

PAGE : 3

BONDS AUTHORIZED AND UNISSUED
 THROUGH PERIOD 5, FY 2011

FUND: 0200 General Capital Projects Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
048C	A2000C245S5	\$0.00	\$0.00	(\$7,908.00)	\$164,408.17	\$0.00
049C	A2000C235S9	\$0.00	\$0.00	\$0.00	\$270.81	\$0.00
050C	A2000C202S3	\$0.00	\$0.00	\$0.00	\$0.01	\$0.00
055C	INFO-TECH LN A2002C142S3	\$4,934,330.93	\$3,594,171.25	(\$487,858.27)	\$18,354,724.59	\$0.00
056C	A2002 CH 236 SEC 3	\$5,830,315.47	\$2,306,727.55	(\$13,965,664.48)	\$123,398,852.99	\$0.00
057C	ACT2002C244SEC3	\$11,228,340.18	\$759,514.94	(\$1,582,463.47)	\$112,691,176.63	\$0.00
058C	A2002C245S4	\$7,105,224.52	\$3,199,136.45	(\$3,076,068.09)	\$88,887,126.01	\$0.00
059C	A202C246S4	\$13,510,990.08	\$4,886,512.86	(\$3,974,397.85)	\$44,630,630.25	\$0.00
060C	HWY SECURITY IMP PROGRAM LOAN	\$0.00	\$0.00	\$0.00	\$659,802.06	\$0.00
061C	INTERMODAL TRANS IMP LOAN '04	\$516,029.61	\$0.00	\$0.00	\$18,609,561.62	\$0.00
062C	RAIL TRANS ASSISTANCE LOAN ACT	\$1,678,636.27	(\$21,579.70)	(\$687,823.64)	\$4,891,142.87	\$0.00
063C	CAPITAL OUTLAY LOAN '04 - A04C	\$152,024.05	\$147,975.95	\$0.00	\$34,386,536.07	\$0.00
064C	MBTA SUBWAY & COMMUTER RAIL LO	\$0.00	\$0.00	\$0.00	\$849,750,000.00	\$0.00
066C	COURT IMP LOAN '04 - A04C290S3	\$38,823,318.02	\$14,254,983.29	(\$10,156,012.27)	\$111,492,768.52	\$0.00
067C	HOUSING PROD & MOD '04 - A04C2	\$15,668,165.25	\$901,136.46	(\$901,136.46)	\$16,654,301.71	\$0.00
073C	Housing for Low & Moderate Inc	\$31,899,171.35	\$13,390,850.27	(\$18,229,583.98)	\$620,298,644.59	\$0.00
074C	Housing for Low & Moderate Inc	\$112,091,367.27	\$13,860,083.45	(\$12,531,265.86)	\$504,567,264.76	\$0.00
555C	A08 C258 S3 Public Higher Educ	\$212,660,925.95	\$40,031,316.80	(\$27,500,770.99)	\$2,058,829,835.33	\$0.00
563C	A08 C304 S16 Capital Facilitie	\$330,737.48	\$125,683.81	(\$18,073.36)	\$327,343,288.52	\$0.00
564C	A08 C304 S17 Capital Improveme	\$23,441,547.42	\$12,076,492.91	(\$3,719,857.26)	\$355,406,102.62	\$0.00
565C	A08 C304 S18 Capital Improveme	\$49,144,676.38	\$26,609,299.36	(\$27,795,166.27)	\$790,186,447.22	\$0.00
565L	A08 C304 S18 Capital Improveme	\$71,169,055.68	\$12,306,256.94	(\$26,014,618.54)	\$717,685,318.65	\$0.00
565T	A08 C304 S18 Capital Improveme	\$2,903,545.01	\$1,204,522.36	(\$2,794,612.31)	\$285,988,000.00	\$0.00
566L	A08 C304 S19 Capital Improveme	\$11,664,077.26	\$7,985,057.73	(\$20,937,794.76)	\$560,000,000.00	\$0.00
567C	A08 C312 S15 Preservation/Impr	\$64,688,643.44	\$19,382,090.09	(\$44,903,921.85)	\$1,172,289,112.16	\$0.00
568C	A08 C312 S16 Environmental Tr	\$10,500,737.16	\$4,718,761.19	(\$11,942,720.08)	\$301,102,177.88	\$0.00
569C	A08 C130 S46 Life Sciences Cen	\$18,881,133.72	\$4,690,070.68	(\$4,690,070.68)	\$460,071,204.40	\$0.00
570T	A08 C231 S2 MA Broadband Bill	\$22,260,422.57	\$996,978.41	(\$381,126.82)	\$32,641,549.39	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
RUN DATE: 11-17-2010
RUN TIME: 06:09:51

PAGE : 4

BONDS AUTHORIZED AND UNISSUED
THROUGH PERIOD 5, FY 2011

FUND: 0200 General Capital Projects Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
AHT2	Affordable Housing Trust Fund	\$16,504,852.75	\$8,000,000.00	(\$8,009,926.15)	\$25,972,113.16	\$0.00
BREF	PROCEEDS OF BOND REFUNDING	\$0.00	\$155,620,676.59	\$0.00	\$0.00	\$0.00
CEA7	Capital Expenditure Act of 200	\$183,585,656.62	\$26,203,131.99	(\$35,355,857.29)	\$264,656,702.97	\$0.00
Q123	CH 123A 06 S2BTAX	\$9,217,870.32	\$4,027,228.23	(\$8,305,859.64)	\$59,446,335.00	\$0.00
FUND TOTALS:		\$997,723,510.07	\$392,582,771.07	(\$299,072,714.91)	\$10,613,194,469.40	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
RUN DATE: 11-17-2010
RUN TIME: 06:09:51

PAGE : 5

BONDS AUTHORIZED AND UNISSUED
THROUGH PERIOD 5, FY 2011

FUND: 0201 Capital Investment Trust Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
028C	CAPITAL INVESTMENT TRUST FUND	\$0.00	\$0.00	\$0.00	\$101,968.40	\$0.00
FUND TOTALS:		\$0.00	\$0.00	\$0.00	\$101,968.40	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
RUN DATE: 11-17-2010
RUN TIME: 06:09:51

PAGE : 6

BONDS AUTHORIZED AND UNISSUED
THROUGH PERIOD 5, FY 2011

FUND: 0203 Convention Center and Exhibition Center Projects Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
032C	S.O.BNDS(CONV.CTR)A97C152S11	\$0.00	\$0.00	\$8,392,626.94	\$0.00	\$0.00
FUND TOTALS:		\$0.00	\$0.00	\$8,392,626.94	\$0.00	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
RUN DATE: 11-17-2010
RUN TIME: 06:09:51

PAGE : 7

BONDS AUTHORIZED AND UNISSUED
THROUGH PERIOD 5, FY 2011

FUND: 0204 Capital Improvement and Investment Trust Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
041C	C55 ACTS OF 1999 S2A	\$93,753.40	\$3,642.60	(\$56,611.52)	\$150,364.92	\$0.00
043C	A2000C236S81	\$0.00	\$0.00	(\$41,416.49)	\$3,517,963.49	\$0.00
FUND TOTALS:		\$93,753.40	\$3,642.60	(\$98,028.01)	\$3,668,328.41	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
 RUN DATE: 11-17-2010
 RUN TIME: 06:09:51

PAGE : 8

BONDS AUTHORIZED AND UNISSUED
 THROUGH PERIOD 5, FY 2011

FUND: 0210 Highway Capital Projects Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
0207	ACCEL TRANSP & DEV. A94C273S2A	\$984,478.88	\$143,370.92	(\$35,911.34)	\$8,461,220.25	\$0.00
0208	ACCEL TRANSP & DEV. A94C273S2B	\$847,815.14	\$201,149.89	(\$140,916.92)	\$3,487,142.39	\$0.00
0222	0222	\$0.00	\$0.00	\$0.00	\$0.38	\$0.00
0237	HY IMP LN A83 C723 S11E	\$0.00	\$0.00	\$0.00	\$40,000.00	\$0.00
0247	HIGHWAY IMPR LN,CH15,S10,A88	\$0.00	\$0.00	\$0.00	\$912,181.70	\$0.00
0253	HIGHWAY IMPROVEMNT LN A91C33S11	\$0.00	\$0.00	\$0.00	\$5,000,000.00	\$0.00
0255	HIGHWAY IMPROVEMNT LN A91C33S13	\$111,821.35	\$0.00	\$75,395.55	\$36,424.90	\$0.00
0256	HIGHWAY IMPROVEMNT LN A91C33S14	\$18,382.27	\$9,042.76	(\$9,042.76)	\$26,921.93	\$0.00
0263	SPC OBG REV HY IMP LN A91C33S8	\$249,320.01	\$0.00	\$0.00	\$249,199.01	\$0.00
0268	HWY IMP LN A94C102S4	\$0.00	\$0.00	\$180,170.00	\$62,194.49	\$0.00
503C	HWY IMPRVMT LN ACT A96C113S4	\$19,017.13	\$127,547.25	(\$146,160.30)	\$468,628.91	\$0.00
505C	HWY IMPRVMT LN A96C205S4	\$64,051.23	\$104,852.12	(\$390,214.95)	\$73,080,096.00	\$0.00
506C	506C	\$0.00	\$0.00	\$0.00	\$1,397.36	\$0.00
507C	HWY IMPRVMT LN A96C205S6	\$0.00	\$0.00	\$0.00	\$2,538.58	\$0.00
509C	INTERMODAL TRNP.IMP.A96C205S13	\$1,520,703.00	\$0.00	\$74,054.12	\$1,710,749.70	\$0.00
513C	PROJECT PLANNING & COORDINATN	\$10,672,816.64	\$3,320,856.19	(\$1,434,206.88)	\$95,298,647.03	\$0.00
517C	HWY IMPRVMT LN A07C27S8	\$127,098,662.47	\$39,197,156.05	(\$68,376,995.10)	\$264,940,075.88	\$0.00
521C	C53S2CA99HWYIMPLN	\$0.00	\$0.00	\$0.00	\$22.63	\$0.00
523C	C55S4A99HWYCAPIMPLN	\$220,332.52	\$159,710.62	(\$151,347.12)	\$1,500,620.79	\$0.00
524C	524C	\$0.00	\$0.00	\$0.00	\$1.00	\$0.00
527C	HWY IMP LN ACT 2000 A00C87S5	\$135,557.52	\$0.00	(\$19.18)	\$34,351,326.83	\$0.00
530C	A2000C235S5(2B)	\$11,092,292.86	\$3,132,513.79	(\$2,892,244.63)	\$103,236,928.27	\$0.00
531C	A2000C235S6(2C)	\$103,352.02	\$0.00	\$0.00	\$5,370,142.63	\$0.00
532C	A2000C235S7(2D)	\$600,362.85	\$0.00	\$0.00	\$1,330,021.38	\$0.00
533C	A2000C535S8(2E)	\$9,730,892.53	\$532,353.57	(\$48,119.34)	\$23,257,478.14	\$0.00
543C	SPEC OBL REV HWY IMP LOAN '04	\$25,812,716.46	\$5,446,086.57	(\$7,976,704.26)	\$241,210,624.45	\$0.00
544C	HWY IMP LOAN '04 - A04C291S5	\$85,516,698.14	\$2,653,814.32	(\$2,356,660.41)	\$107,504,873.68	\$0.00
545C	HWY IMP LOAN '04 - A04C291S6	\$0.00	\$0.00	\$0.00	\$3,007,792.94	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
 RUN DATE: 11-17-2010
 RUN TIME: 06:09:51

PAGE : 9

BONDS AUTHORIZED AND UNISSUED
 THROUGH PERIOD 5, FY 2011

FUND: 0210 Highway Capital Projects Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
546C	RTA IMP LOAN '04 - A04C291S8	\$974,193.00	\$0.00	(\$1,500,000.00)	\$4,380,241.13	\$0.00
547C	MOBILITY ASSISTANCE PROG IMP L	\$0.00	(\$142.09)	\$0.00	\$49,525.36	\$0.00
550C	Trans Imp Bill A08C86S2A	\$47,585,421.20	\$34,283,165.41	(\$22,980,994.49)	\$201,885,208.90	\$0.00
551C	Trans Imp Bill A08C86S2B	\$44,529,312.20	\$4,902,452.77	(\$1,175,907.08)	\$52,588,225.26	\$0.00
552C	Trans Imp Bill A08C86S2C	\$27,002.88	\$170,061.31	(\$69,031.20)	\$7,429,867.54	\$0.00
553C	Trans Imp Bill A08C86S2D	\$0.00	\$0.00	\$0.00	\$708,000,000.00	\$0.00
554C	C233 8 A. 08 Structurally Defi	\$276,661,986.46	\$65,249,818.31	(\$162,981,685.82)	\$2,984,000,000.00	(\$200,000,000.00)
556C	A08 C303 S47 Transportation Im	\$937,779.64	\$394,714.56	(\$1,241,005.55)	\$585,300,000.00	\$0.00
557C	A08 C303 S48 Transportation Im	\$214,323,607.12	\$34,392,680.34	(\$18,991,494.31)	\$336,718,026.64	\$0.00
558C	A08 C303 S49 Transportation Im	\$64,921,621.90	\$2,749,373.27	(\$2,014,392.29)	\$230,218,755.93	\$0.00
558T	A08 C303 S49 Transportation Im	\$0.00	\$0.00	\$0.00	\$20,000,000.00	\$0.00
559C	A08 C303 S50 Transportation Im	\$441,694.20	\$45,105.09	(\$724,332.83)	\$18,052,051.50	\$0.00
560C	A08 C303 S51 Transportation Im	\$0.00	\$0.00	\$0.00	\$72,000,000.00	\$0.00
561C	A08 C303 S52 Transportation Im	\$0.00	\$0.00	\$0.00	\$40,000,000.00	\$0.00
562C	A08 C303 S53 Transportation Im	\$0.00	\$0.00	\$0.00	\$15,366,500.00	\$0.00
BREF	PROCEEDS OF BOND REFUNDING	\$0.00	\$90,348,777.66	\$0.00	\$0.00	\$0.00
DR05	Cross Over Refunding 2005-A	\$0.00	\$0.00	\$1,824.49	\$0.00	\$0.00
FUND TOTALS:		\$925,201,891.62	\$287,564,460.68	(\$295,305,942.60)	\$6,250,535,653.51	(\$200,000,000.00)

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
 RUN DATE: 11-17-2010
 RUN TIME: 06:09:51

PAGE : 10

BONDS AUTHORIZED AND UNISSUED
 THROUGH PERIOD 5, FY 2011

FUND: 0211 State Bond Share Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
0252	HIGHWAY IMPROVEMNT LN A91C33S10	\$0.00	\$0.00	\$0.00	\$53,166,787.18	\$0.00
0287	HWY IMP LN A94C273S4	\$0.00	\$0.00	\$0.00	\$60,699,133.00	\$0.00
0288	HWY IMP LN A94C102S3	\$0.00	\$0.00	\$0.00	\$70,016,235.00	\$0.00
502C	HWY IMPRVMT LN ACT A96C113S3	\$0.00	\$0.00	(\$26,510.00)	\$8,001,124.00	\$0.00
504C	HWY IMPRVMT LN A96C205S3	\$0.00	\$0.00	(\$160,248.00)	\$4,488,943.00	\$0.00
510C	A97C11S3 HWY IMP LOAN 1997	\$0.00	\$0.00	(\$469,058.36)	\$38,922,281.36	\$0.00
511C	A97C11S5 HWY IMP LOAN 1997	\$0.00	\$0.00	\$0.00	\$57,585,090.00	\$0.00
512C	A97C11S9 HWYIMPLN 97GANS/BNDS	\$0.00	\$0.00	\$0.00	\$216,002.00	\$0.00
522C	C55S3A99HWYCAPIMPLN	\$0.00	\$0.00	(\$227,320.00)	\$284,740.00	\$0.00
526C	HWY IMP LN ACT 2000 A00C87S4	\$0.00	\$0.00	(\$55,299.00)	\$12,232,224.00	\$0.00
527C	HWY IMPRVNT LN A07C27S7	\$0.00	\$0.00	(\$123,737,576.97)	\$110,008,857.97	\$0.00
528C	A2000 C235 S3(2)	\$0.00	\$0.00	(\$5,027,671.67)	\$33,942,099.67	\$0.00
529C	A2000C235S4(2A)	\$0.00	\$0.00	(\$1,096,524.81)	\$167,313,390.80	\$0.00
541C	ACTS OF 2003 CH.40 SEC.3	\$0.00	\$0.00	(\$29,982,714.22)	\$39,966,359.22	\$0.00
542C	HWY IMP LOAN '04 - A04C291S3	\$0.00	\$0.00	(\$12,052,887.70)	\$31,598,211.70	\$0.00
549C	A08C86S2 Trans Imp Bill State	\$0.00	\$0.00	(\$112,223,333.00)	\$493,000,000.00	\$0.00
CAT1	CA/T (0202/0252) A91C33S10	\$0.00	\$0.00	\$0.00	\$10,216,908.00	\$0.00
CAT2	CA/T (0288) A94C102S3	\$0.00	\$0.00	(\$496.00)	\$22,358,452.00	\$0.00
CAT3	CA/T (0290/0287) A94C273S4	\$0.00	\$0.00	(\$1,720,313.00)	\$4,097,037.00	\$0.00
CAT4	CA/T (504C) A96C205S3	\$0.00	\$0.00	\$0.00	\$334,750.00	\$0.00
CAT5	CA/T (502C) A96C113S4	\$0.00	\$0.00	\$0.00	\$2,938,804.00	\$0.00
CAT6	CA/T (510C) A97C11S3	\$0.00	\$0.00	\$4.00	\$68,903,836.00	\$0.00
FUND TOTALS:		\$0.00	\$0.00	(\$286,779,948.73)	\$1,290,291,265.90	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA2658
RUN DATE: 11-17-2010
RUN TIME: 06:09:51

BONDS AUTHORIZED AND UNISSUED
THROUGH PERIOD 5, FY 2011

PAGE : 11

FUND: 0212 Central Artery Statewide Road & Bridge Infrastructure Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
525C	CAT/TWT INF LN A2000 A00C87S3	\$0.00	\$0.00	\$6,159,161.06	\$4,282.86	\$0.00
538C	GO BOND SALE 2002C	\$0.00	\$0.00	\$201,798.54	\$0.00	\$0.00
BREF	Bond Refunding	\$0.00	\$8,260,378.62	\$0.00	\$0.00	\$0.00
C228	C/A CH 228 PROCEEDS	\$1,690,356.67	\$609,634.86	\$13,230,674.44	\$0.00	\$0.00
DFSD	OP FNDS TRFR A2000 C87S15	\$0.00	\$0.00	\$690.01	\$0.00	\$0.00
PKE3	MASS PIKE PMT A2000 C87 S11	\$0.00	\$0.00	\$67.34	\$0.00	\$0.00
PRT3	MASS PORT PMT A2000 C87 S11	\$0.00	\$0.00	\$107.48	\$0.00	\$0.00
RMV1	EXCESS RMV REVENUESS15C87A2000	\$170,302.37	\$11,275.55	\$52,628,958.81	\$0.00	\$0.00
FUND TOTALS:		\$1,860,659.04	\$8,881,289.03	\$72,221,457.68	\$4,282.86	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA2658

PAGE : 12

RUN DATE: 11-17-2010

BONDS AUTHORIZED AND UNISSUED

RUN TIME: 06:09:51

THROUGH PERIOD 5, FY 2011

FUND: 0240 Metro Parks Capital

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
0375	Met Parks Dis Loan	\$0.00	\$0.00	\$0.07	\$87,633.83	\$0.00
FUND TOTALS:		\$0.00	\$0.00	\$0.07	\$87,633.83	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
 RUN DATE: 11-17-2010
 RUN TIME: 06:09:51

PAGE : 13

BONDS AUTHORIZED AND UNISSUED
 THROUGH PERIOD 5, FY 2011

FUND: 0271 Local Aid Capital Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
0373	CHARLES RIV.WTR.QLTY.LN72	\$0.00	\$0.00	\$0.00	\$4,869.05	\$0.00
0375	MET. PARKS DIST.LOAN 1974	\$0.00	\$0.00	\$0.00	\$184,246.87	\$0.00
0603	LOC SLD WST FAC L&G A87C584S27	\$0.00	\$0.00	\$10,069.48	\$0.00	\$0.00
0607	CRTHSE CONST&REN LN A88C203S28	\$6,517.00	\$0.00	\$0.00	\$8,217.00	\$0.00
0608	IMPROVEMENT CT HSES A88C203S24	\$0.00	\$0.00	\$0.00	\$7,187.50	\$0.00
0613	CAP OTLY LN A94C85S3	\$14,050.00	\$0.00	\$0.00	\$1,067,931.24	\$0.00
0614	0614	\$0.00	\$0.00	\$0.00	\$20,713.69	\$0.00
0618	TRANSP DEVEL & IMP. A94C273S2K	\$0.00	\$0.00	\$0.00	\$9,914,237.31	\$0.00
0656	WATER POLLUTION CTRL F276 A85	\$0.00	\$0.00	\$0.00	\$7,331.00	\$0.00
700C	700C	\$0.00	\$0.00	\$10,835.00	(\$10,835.00)	\$0.00
713C	A2002 CH 236 SEC 4	\$0.00	\$0.00	\$0.00	\$0.01	\$0.00
BREF	PROCEEDS OF BOND REFUNDING	\$0.00	\$27,179,256.10	\$0.00	\$0.00	\$0.00
SBA1	MASS SCHOOL BUILD ASSIS FUND L	\$0.00	\$0.00	\$0.01	(\$0.01)	\$0.00
FUND TOTALS:		\$20,567.00	\$27,179,256.10	\$20,904.49	\$11,203,898.66	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
RUN DATE: 11-17-2010
RUN TIME: 06:09:51

PAGE : 14

BONDS AUTHORIZED AND UNISSUED
THROUGH PERIOD 5, FY 2011

FUND: 0278 Government Land Bank Capital Projects Fund

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
0650	GOVT LAND BANK FD LN A77C732S6	\$1,365,998.00	\$634,002.00	(\$634,002.00)	\$10,573,305.80	\$0.00
FUND TOTALS:		\$1,365,998.00	\$634,002.00	(\$634,002.00)	\$10,573,305.80	\$0.00

COMMONWEALTH OF MASSACHUSETTS

REPORT ID: NGA265S
RUN DATE: 11-17-2010
RUN TIME: 06:09:51

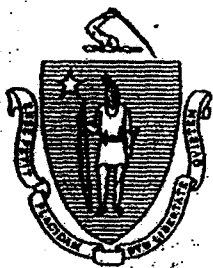
PAGE : 15

BONDS AUTHORIZED AND UNISSUED
THROUGH PERIOD 5, FY 2011

FUND: 0289 Bond Ahead Fund (Holding account - memo only)

SUB FUND	NAME	ENCUMBRANCES	EXPENDITURES	NET LIQUID ASSET	AUTHORIZED AND UNISSUED	TEMPORARY LOANS
0000	Zero Subfund for 0289 Fund	\$0.00	\$0.00	\$2,500,250.71	\$0.00	\$0.00
0286	Bond ahead Sales in Advance of	\$0.00	\$0.00	\$137,435,840.72	\$0.00	\$0.00
0291	Bond Proceeds	\$0.00	\$0.00	\$88,795,884.63	\$0.00	\$0.00
S10D	Proceeds from Bond Sales	\$0.00	\$0.00	\$356,496,400.00	\$0.00	\$0.00
FUND TOTALS:		\$0.00	\$0.00	\$585,228,376.06	\$0.00	\$0.00
GRAND FUND TOTALS:		\$1,926,266,379.13	\$716,845,421.48	(\$216,027,271.01)	\$18,179,660,806.77	(\$200,000,000.00)

Divider



The Commonwealth of Massachusetts
Office of the Comptroller
One Ashburton Place, Room 901
Boston, Massachusetts 02108

MARTIN J. BENISON
COMPTROLLER

PHONE: (617) 727-5000
FAX: (617) 727-2163
INTERNET: <http://www.mass.gov/osc>

DECLARATION OF OFFICIAL INTENT

The undersigned, Comptroller of The Commonwealth of Massachusetts (the "Commonwealth"), hereby states the following:

1. This shall constitute a "Declaration of Official Intent" pursuant to the provisions of Section 1.150-2 of U.S. Department of Treasury Regulations.
2. The Commonwealth expects to spend amounts on deposit in its General Fund to pay the costs of Capital expenditures (the "Expenditures") in the amounts and for the purposes as described in the reports referred to in Schedule A hereto. The Commonwealth reasonably expects to reimburse itself for all such Expenditures with the proceeds of debt to be incurred by the Commonwealth. The amount of such Expenditures is the maximum principal amount of debt the Commonwealth intends to issue for each such purpose. The maximum principal amount of bonds expected to be issued under each bond authorized to which such Expenditures relate is set forth on Schedule B hereto.

In Witness Whereof, the undersigned has executed this Declaration of Official Intent this 16th day of Nov. 2010.

THE COMMONWEALTH OF MASSACHUSETTS

BY:

M. J. Benison
Comptroller

SCHEDULE A

The following reports are available for public inspection at the Office of the Comptroller, One Ashburton Place, Room 909, Boston MA 02108 and are hereby incorporated in the Declaration of Official Intent by reference:

1. Amount of Expenditures to be reimbursed by debt. Such amounts are set forth in the following reports:

Warrant Analysis by Appropriation Type (Capital Expenditures)	MMARS Report NAP625W
Summary of Warranted Payments by Fund	MMARS Report NAP627WS
Detail Monthly Warranted Payments by Fund/Class	MMARS Report NAP627WD

2. Purpose of Expenditures. The Expenditures Classification Handbook outlines a description of expenditures incorporated herein by reference.

SCHEDULE B- BONDS AUTHORIZED AND UNISSUED AS OF:

Month Nov. Day 10th 2010 MMARS REPORT NGA265S

SCHEDULE C-BOND FUNDS

Fund - 182	<u>Capital Expenditure Reserve Fund</u> Established for the purpose of recording Central Artery / Third Harbor Tunnel expenditures funded by revenues received from the Massachusetts Turnpike Authority and the Massachusetts Port Authority.
Fund - 200	<u>General Capital Projects</u> Various purpose capital projects which include asbestos removal from schools, pier redevelopment, water pollution control facilities, public housing, public buildings, correctional facilities environmental facilities, airport facilities, cultural facilities, and mass transit all as more particularly described in Schedule B above.
Fund - 201	<u>Capital Investment Trust Fund</u> Various purpose capital projects which includes appropriations for infrastructure, economic development, information technology and housing. These appropriations are funded by transfers of operating surpluses.
Fund - 202	<u>Capital Reserve Offset Fund</u> Surplus operating revenue as determined by the Comptroller in accordance with Section 5C of Chapter 29 MGL, to be applied to various bond authorizations in lieu of proceeds from the issuance of long term debt.
Fund - 203	<u>Boston Convention and Exhibition Center Fund</u> Various convention center projects includes Boston convention center project, Springfield Civic Center, Worcester Convention Center, basketball hall of fame all as more particularly described in Schedule B above.
Fund - 204	<u>Capital Improvement and Investment Trust Fund</u> Various purpose capital projects which includes appropriations for infrastructure, economic development, information technology and housing. Transfers of operating surpluses fund these appropriations.
Fund - 210	<u>Highway Capital Projects</u> Various highway and related transportation projects, all more particularly described in Schedule B above.
Fund - 220	<u>Inland Fish and Game Capital Projects</u> Various fish and game capital projects, all as more particularly described in Schedule B above.
Fund - 230	<u>State Recreation Area Capital Projects</u> Various capital projects for recreation areas within the Commonwealth, all as more particularly described in Schedule B above.
Fund - 240	<u>Metropolitan Parks Capital Projects</u> Various parks projects within the metropolitan Boston area, all as more particularly described in Schedule B above.
Fund - 270	<u>General Obligation Federally Assisted Housing</u> Various federally assisted housing projects, all more particularly described in Schedule B above.
Fund - 271	<u>Local Aid Capital Projects</u> Various projects for municipalities including schools, highway improvements, library facilities, water pollution abatement, solid waste facilities, community development facilities, and courthouse facilities, all more particularly described in Schedule B above.
Fund - 272	<u>Locking Facilities</u> Various correctional facilities, all as more particularly described in Schedule B above.
Fund - 273	<u>Suffolk County Jail</u> Construction of new Suffolk County Jail, all as more particularly described in Schedule B above.
Fund - 274	<u>County Correctional Institution</u> County correctional facilities, as more particularly described in Schedule B above.
Fund - 275	<u>Local Infrastructure</u> Various municipal capital projects, all as more particularly described in Schedule B above.
Fund - 276	<u>Water Pollution Control</u> Various water pollution control projects, all as more particularly described in Schedule B above.
Fund - 278	<u>Government Land Bank</u> Various capital projects for the Massachusetts Government Land Bank, all as more particularly described in Schedule B above.
Fund - 279	<u>Environmental Challenge</u> Various environmental facilities, all more particularly described in Schedule B above.
Fund - 280	<u>Intercity Bus Capital Projects</u> Various intercity bus capital projects, all as more particularly described in Schedule B above.

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth")
GENERAL OBLIGATION BONDS, CONSOLIDATED LOAN OF 2010
COLLEGE OPPORTUNITY BONDS, SERIES A (the "Bonds")

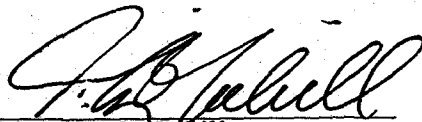
Debt Limit Certification

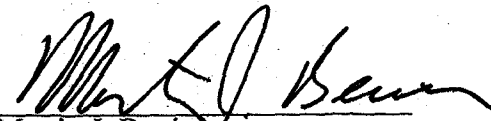
We, Timothy P. Cahill and Martin J. Benison, hereby certify that we are the Treasurer and Receiver-General and Comptroller, respectively, of the Commonwealth and, in connection with the issuance of the Bonds, hereby further certify as follows:

As computed in accordance with the provisions of Section 60A of Chapter 29 of the General Laws, the sum of the principal amounts of all direct bonds issued by the Commonwealth and currently outstanding as of November 1, 2010, not including the Bonds, is the amount set forth on Schedule A hereto. No additional bonds have been issued since November 1, 2010, except for the Commonwealth's \$350,000,000 General Obligation Bonds, Consolidated Loan of 2010, Series E (Federally Taxable - Build America Bonds - Direct Pay to Issuer), with a net proceeds amount of \$355,649,000.00, issued on December 1, 2010.

As computed in accordance with the provisions of the aforesaid Section 60A, the debt limit for all direct bonds issued by the Commonwealth and outstanding as of the date hereof is the amount set forth on Schedule A hereto.

IN WITNESS WHEREOF, we hereby execute this Certificate this 1st day of December, 2010.


Timothy P. Cahill
Treasurer and Receiver-General


Martin J. Benison
Comptroller

SCHEDULE A

Outstanding Direct Bonds as of November 1, 2010 - \$15,409,223,588

Debt Limit: \$ 18,042,424,394.98

THE COMMONWEALTH OF MASSACHUSETTS

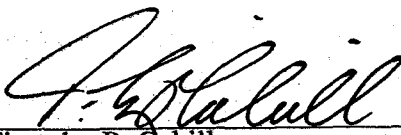
CROSS RECEIPT

Re: The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A, dated August 1, 2010 (the "Bonds").

I, the undersigned, Treasurer and Receiver-General of The Commonwealth of Massachusetts, hereby acknowledge that I have this day received from Bank of America, as custodian (the "Custodian"), named in the Bond Purchase Agreement dated November 30, 2010, the full payment for the Bonds. Such sum has been computed as set forth on the attached Schedule A.

Date: December 1, 2010

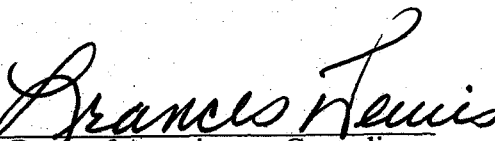
By:


Timothy P. Cahill
Treasurer and Receiver-General of
The Commonwealth of Massachusetts

The undersigned as Custodian, hereby acknowledges receipt on this day of a total of 16 certificates, numbered R-1 through R-16, registered in the name of Bank of America, as Custodian.

Dated: December 1, 2010

By:


Bank of America, as Custodian

Schedule A

Principal Amount	\$8,425,898.26
Plus: Accrued Interest	<u>283.94</u>
Net Proceeds to the Commonwealth:	<u>\$8,426,182.20</u>

R--I

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2015 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, ONE MILLION EIGHT HUNDRED FIFTY THOUSAND EIGHT HUNDRED NINETY-SIX DOLLARS AND SIXTY-SIX CENTS (\$1,850,896.66) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount in effect on the prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2016 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, NINE HUNDRED EIGHT THOUSAND SIX HUNDRED FORTY-FIVE DOLLARS AND SIXTEEN CENTS (\$908,645.16) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of the prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2017 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, SIX HUNDRED FIFTEEN THOUSAND TWO HUNDRED THIRTEEN DOLLARS AND EIGHT CENTS (\$615,213.08) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2018 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, SEVEN HUNDRED SIXTY-SIX THOUSAND NINE HUNDRED SIXTY DOLLARS AND SEVENTY-SEVEN CENTS (\$766,960.77) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date, by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2019 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, FIVE HUNDRED SEVENTY-EIGHT THOUSAND THREE HUNDRED EIGHTY-EIGHT DOLLARS AND TWENTY-TWO CENTS (\$578,388.22) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2020 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, FIVE HUNDRED FORTY-EIGHT THOUSAND FIVE HUNDRED SIXTY-ONE DOLLARS AND FIFTY-TWO CENTS (\$548,561.52) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date, by the Accreted Amount in effect on the prior August 1 the dollar amount obtained by multiplying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

R--7

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2021 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, FOUR HUNDRED TWENTY-SEVEN THOUSAND FIVE HUNDRED TWENTY-ONE DOLLARS AND NINETY-ONE CENTS (\$427,521.91) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2022 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, FOUR HUNDRED THOUSAND ONE HUNDRED SIXTY-FIVE DOLLARS AND NINETY-NINE CENTS (\$400,165.99) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date, by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2023 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, THREE HUNDRED TWENTY-NINE THOUSAND SEVEN HUNDRED TWENTY-NINE DOLLARS (\$329,729.00) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2024 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, THREE HUNDRED THIRTY-THREE THOUSAND EIGHT HUNDRED THIRTY-ONE DOLLARS AND FIFTY-THREE CENTS (\$333,831.53) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date, by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by multiplying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2025 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, THREE HUNDRED THIRTY-FIVE THOUSAND ONE HUNDRED FIFTY-ONE DOLLARS AND FIFTY CENTS (\$335,151.50) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

R-12

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2026 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, FOUR HUNDRED TWO THOUSAND THREE HUNDRED SEVENTY-SEVEN DOLLARS AND FIFTY CENTS (\$402,377.50) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as such prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2027 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, FIVE HUNDRED EIGHTEEN THOUSAND EIGHT HUNDRED TWENTY-ONE DOLLARS AND TWENTY-SIX CENTS (\$518,821.26) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such date.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2028 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, TWO HUNDRED THIRTY-SIX THOUSAND FOUR HUNDRED NINETY-SIX DOLLARS AND EIGHTY-THREE CENTS (\$236,496.83) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Bond means the annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2029 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, ONE HUNDRED EIGHTEEN THOUSAND ONE HUNDRED TWO DOLLARS AND THIRTY-THREE CENTS (\$118,102.33) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Bonds
Consolidated Loan of 2010
College Opportunity Bonds, Series A
Massachusetts General Laws, Chapter 29, Section 49C, and Chapter 15C
(MA-COB-10A)

DATED AS OF AUGUST 1, 2010

THE COMMONWEALTH OF MASSACHUSETTS (the "Commonwealth"), for value received, promises to pay to BANK OF AMERICA, N.A., as Custodian under the Custody Agreement (as defined below) or registered assigns the Accreted Amount (as defined below) of this Bond on the first day of August, 2030 (the "Maturity Date"), and to pay interest on the Initial Principal Amount hereof, FIFTY-FIVE THOUSAND THIRTY-FIVE DOLLARS (\$55,035.00) semiannually on February 1 and August 1 of each year, commencing February 1, 2011 (each an "Interest Payment Date") at the rate of Fifty Hundredths Per Cent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. This Bond will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance hereof.

The "Accreted Amount" of this Bond is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Bond means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Bonds is \$300.00 in initial principal amount. This Bond may be exchanged by the registered holder thereof for two or more new registered bonds in the same aggregate initial principal amount, each in an amount at least equal to the minimum authorized denomination.

This Bond is one of an authorized issue of bonds of the Commonwealth dated August 1, 2010 (the "Bonds") in the initial principal amount of Eight Million Four Hundred Twenty-Five Thousand Eight Hundred Ninety-Eight Dollars and Twenty-Six Cents (\$8,425,898.26).

The Bonds are being issued by means of a book-entry system, with one bond certificate for each maturity immobilized at Bank of America, as Custodian (the "Custodian") under a Custody Agreement dated February 1, 1995 between Bank of America, formerly known as Fleet National Bank (formerly, Shawmut Bank, N.A.) and the Massachusetts Educational Financing Authority, as amended and supplemented (the "Custody Agreement"), not available for distribution to the public and evidencing ownership of the Bonds in such initial principal amounts as have been purchased by the beneficial owners of the Bonds under The U. Plan: The Massachusetts College Savings Program (the "Program") administered by the Massachusetts Educational Financing Authority, with transfers of ownership effected on the records of the Custodian pursuant to rules and procedures in effect under the Program. Interest payable semi-annually on the Bond and the Accreted Amount of the Bond payable at maturity will be paid in clearinghouse funds to the Custodian, as registered owner of the Bond. Transfer of principal and interest payments to or for the account of beneficial owners of the Bonds by the Custodian will be the responsibility of the Custodian and will be made as provided in the Custody Agreement and the Enrollment Agreement incorporated in the Program Description and Offering Statement dated May 1, 2010 applicable to the Program. The record date for principal and interest payments will be the business day next preceding an Interest Payment Date. The Commonwealth is not responsible or liable for maintaining, supervising or reviewing the records maintained by the Custodian.

The Bonds are not subject to redemption prior to their stated Maturity Dates.

This Bond is transferable only upon the books of the Commonwealth, which shall be kept for such purpose at the Office of the Treasurer and Receiver-General, Boston, Massachusetts, but only in a manner which will maintain immobilization of bond certificates at Bank of America or any successor Custodian.

No personal responsibility or accountability shall attach to any person executing this Bond by reason of such execution or the issuance hereof.

This Bond is issued by authority of Section 49C of Chapter 29, and Chapter 15C of the Massachusetts General Laws, and two or more bond authorizing acts. Pursuant to Section 49 of Chapter 29 of the Massachusetts General Laws, certain loans have been consolidated.

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby covenants with the holders of the Bonds that the Commonwealth will comply with such requirements of the Internal Revenue Code of 1986, as amended, as must be satisfied in order to assure that interest on the Bonds is and continues to be excludable from the gross income of such holders for federal income tax purposes.

All acts, formalities and conditions essential to the validity hereof have been performed and complied with. This Bond constitutes a general obligation of the Commonwealth and the full faith and credit of the Commonwealth are pledged to the payment of the principal and interest on this Bond. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should further be noted that Chapter 29, Section 60B, of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth.

Reference is made to further provisions of this bond in Attachment A hereto, which has the same effect as if set forth herein.

SPECIMEN

IN WITNESS WHEREOF, the Commonwealth has caused this Bond to be executed in its name and on its behalf by the signature of its Treasurer and Receiver-General and the approval of the Governor of the Commonwealth to be noted hereon by his signature or a facsimile thereof and has caused its official seal or a facsimile thereof to be impressed or otherwise reproduced hereon, all as of the date hereof.

THE COMMONWEALTH OF MASSACHUSETTS



Approved By

By

A stylized, handwritten signature of Deval L. Patrick in black ink.

Deval L. Patrick
Governor

SPECIMEN

A stylized, handwritten signature of Timothy P. Cahill in black ink.

Timothy P. Cahill
Treasurer and Receiver-General

The Commonwealth of Massachusetts
 \$8,425,898.26
 GENERAL OBLIGATION BONDS
 CONSOLIDATED LOAN OF 2009
 COLLEGE OPPORTUNITY BONDS, SERIES A

Continuing Disclosure Undertaking

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system pursuant to the requirements of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), no later than 270 days after the end of each fiscal year of the Commonwealth, commencing with the fiscal year ending June 30, 2011, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available; provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to EMMA when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated June 8, 2010 (the "Information Statement"), as it appears as Appendix A in the Official Statement dated June 21, 2010 of the Commonwealth with respect to its \$250,000,000 General Obligation Bonds, Consolidated Loan of 2010, Series B, which Official Statement has been filed with EMMA, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
1. Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, revenues and expenditures, concluding with prior fiscal year, plus estimates for current fiscal year	"COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Statutory Basis Distribution of Budgetary Revenues and Expenditures"
2. Summary presentation on GAAP and five-year comparative basis of governmental funds operations, concluding with prior fiscal year	"SELECTED FINANCIAL DATA - GAAP Basis"
3. So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	"COMMONWEALTH REVENUES AND EXPENDITURES - Limitations on Tax Revenues"

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
4. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"COMMONWEALTH REVENUES AND EXPENDITURES – Employee Benefits; <i>Pension</i> "
5. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"STATE WORKFORCE"
6. Five-year summary presentation of actual capital project expenditures	"COMMONWEALTH CAPITAL INVESTMENT PLAN"
7. Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	"LONG-TERM LIABILITIES – Outstanding Long Term Commonwealth Debt"
8. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"LONG-TERM LIABILITIES - Debt Service Requirements"
9. Annual fiscal year contract assistance requirements for Commonwealth general obligation contract assistance, beginning with the current fiscal year	"LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities"
10. Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	"LONG-TERM LIABILITIES - Budgetary Contract Assistance Liabilities"
11. Five-year summary presentation of authorized but unissued general obligation debt	"LONG-TERM LIABILITIES - Authorized But Unissued Debt"
12. So long as Commonwealth statutes impose a limit on the amount of outstanding "direct" bonds, information as to compliance therewith as of the end of the prior fiscal year	"LONG-TERM LIABILITIES - General Authority to Borrow"
13. Summary presentation of the then-current, Commonwealth interest rate swap agreements	"LONG-TERM LIABILITIES - Interest Rate Swaps"

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Commonwealth, which have been submitted to EMMA. The Commonwealth's annual financial statements for each fiscal year shall consist of (i) combined financial statements prepared in accordance with a basis of accounting that demonstrates compliance with the Massachusetts General Laws and other applicable state finance laws, if any, in effect from time to time and (ii) general purpose financial statements prepared in accordance with generally

accepted accounting principles in effect from time to time and shall be audited by a firm of certified public accountants appointed by the Commonwealth.

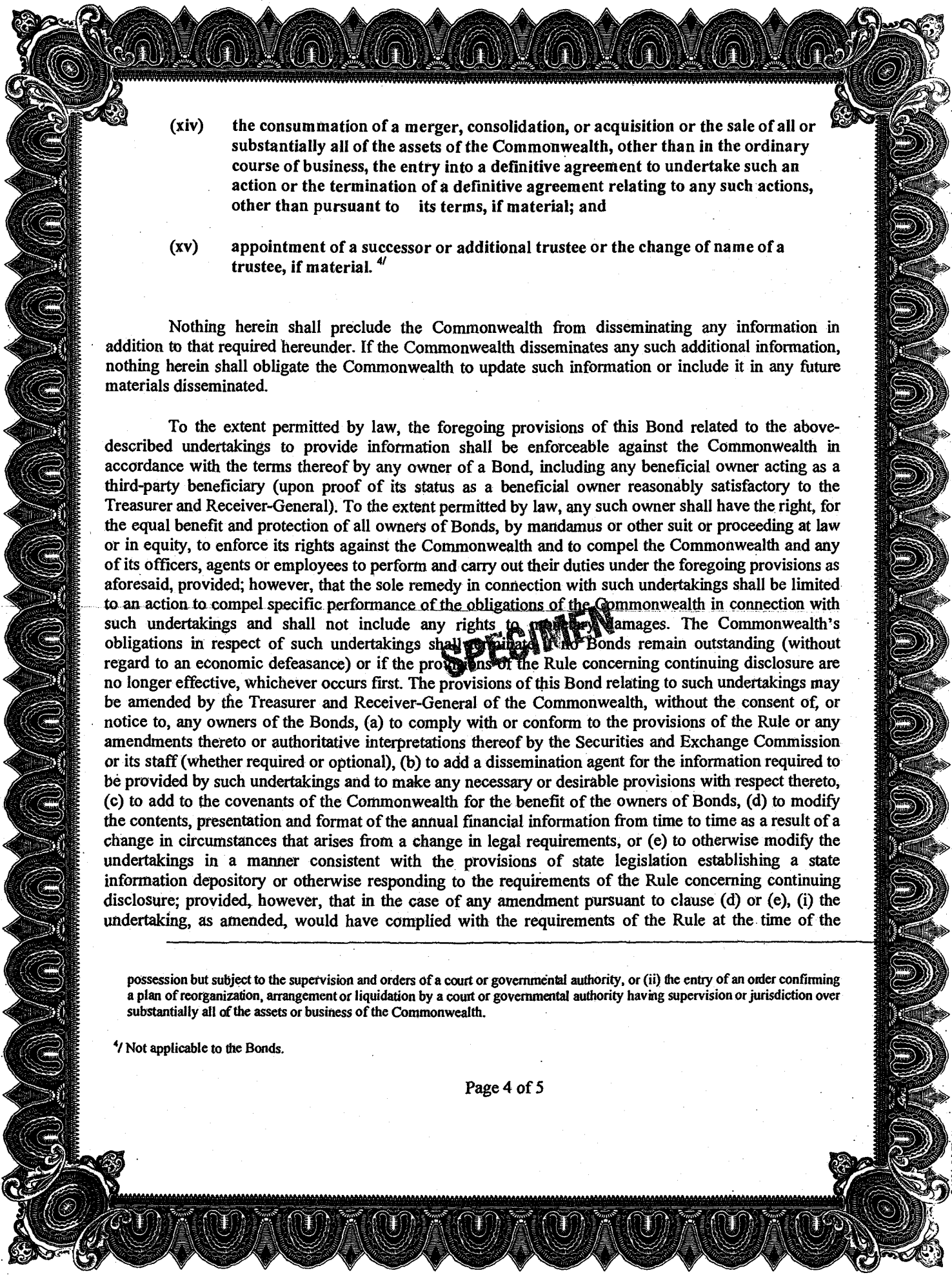
On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby further undertakes for the benefit of the owners of the Bonds to provide in a timely manner, not in excess of ten business days after occurrence of the event, to EMMA notice of any of the following events with respect to the Bonds (numbered in accordance with the provisions of the Rule):

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;^{1/}
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to the rights of security holders, if material;
- (viii) bond calls, if material;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the Bonds, if material;^{2/}
- (xi) rating changes;
- (xii) tender offers;
- (xiii) bankruptcy, insolvency, receivership or similar event of the Commonwealth;^{3/}

1/Not applicable to the Bonds, since there is no debt service reserve fund securing the Bonds.

2/Not applicable to the Bonds, since there is no property securing repayment of the Bonds that could be released, substituted or sold.

3/ As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Commonwealth in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Commonwealth, or if such jurisdiction has been assumed by leaving the existing governing body and officials in

- 
- (xiv) the consummation of a merger, consolidation, or acquisition or the sale of all or substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xv) appointment of a successor or additional trustee or the change of name of a trustee, if material.^{4/}

Nothing herein shall preclude the Commonwealth from disseminating any information in addition to that required hereunder. If the Commonwealth disseminates any such additional information, nothing herein shall obligate the Commonwealth to update such information or include it in any future materials disseminated.

To the extent permitted by law, the foregoing provisions of this Bond related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Bond, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid, provided; however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth's obligations in respect of such undertakings shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Bond relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing a state information depository or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the

possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Commonwealth.

^{4/} Not applicable to the Bonds.

offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds created thereby at or prior to the time of such amendment.

SPECIMEN

5086778v.1

Form **8038-G**

(Rev. May 2010)

Department of the Treasury
Internal Revenue Service**Information Return for Tax-Exempt Governmental Obligations**

► Under Internal Revenue Code section 149(e)

► See separate instructions.

Caution: If the issue price is under \$100,000, use Form 8038-GC.

OMB No. 1545-0720

Part I Reporting AuthorityIf Amended Return, check here ☐

1 Issuer's name The Commonwealth of Massachusetts		2 Issuer's employer identification number (EIN) 04 : 6002284	
3 Number and street (or P.O. box if mail is not delivered to street address) c/o Treasurer and Receiver-General, State House	Room/suite 227	4 Report number (For IRS Use Only) 3	
5 City, town, or post office, state, and ZIP code Boston, Massachusetts 02133		6 Date of issue 12/01/2010	
7 Name of issue Gen Oblig Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Ser A		8 CUSIP number NONE	
9 Name and title of officer of the issuer or other person whom the IRS may call for more information Colin A MacNaught, Assistant Treasurer		10 Telephone number of officer or other person (617) 367-6900	

Part II Type of Issue (enter the issue price) See instructions and attach schedule

11 Education	11		
12 Health and hospital	12		
13 Transportation	13	8,425,898	26
14 Public safety	14		
15 Environment (including sewage bonds)	15		
16 Housing	16		
17 Utilities	17		
18 Other. Describe ►	18		
19 If obligations are TANs or RANs, check only box 19a <input type="checkbox"/>			
If obligations are BANs, check only box 19b <input type="checkbox"/>			
20 If obligations are in the form of a lease or installment sale, check box <input type="checkbox"/>			

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	08/01/30	\$ 8,425,898.26	\$ 8,425,898.26	9.42 years	VR %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22 Proceeds used for accrued interest	22	283	94
23 Issue price of entire issue (enter amount from line 21, column (b))	23	8,425,898	26
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	0	
25 Proceeds used for credit enhancement	25	0	
26 Proceeds allocated to reasonably required reserve or replacement fund	26	0	
27 Proceeds used to currently refund prior issues	27	0	
28 Proceeds used to advance refund prior issues	28	0	
29 Total (add lines 24 through 28)	29	0	
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	8,425,898	26

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)

31 Enter the remaining weighted average maturity of the bonds to be currently refunded	►	_____ years
32 Enter the remaining weighted average maturity of the bonds to be advance refunded	►	_____ years
33 Enter the last date on which the refunded bonds will be called (MM/DD/YYYY)	►	_____
34 Enter the date(s) the refunded bonds were issued (MM/DD/YYYY)	►	_____

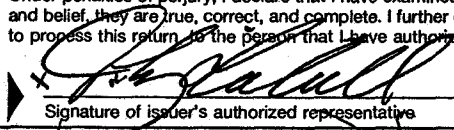

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 63773S

Form 8038-G (Rev. 5-2010)

Part VI Miscellaneous

- | | |
|------------|---|
| 35 | 0 |
| 36a | 0 |
| 37a | 0 |
- 35** Enter the amount of the state volume cap allocated to the issue under section 141(b)(5) . . .
- 36a** Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (GIC) (see instructions) . . .
- b** Enter the final maturity date of the GIC ▶ _____
- 37** Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units . . .
- b** If this issue is a loan made from the proceeds of another tax-exempt issue, check box ☐ and enter the name of the issuer ▶ _____ and the date of the issue ▶ _____
- 38** If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box . . . ▶ ☐
- 39** If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box . . . ▶ ☐
- 40** If the issuer has identified a hedge, check box . . . ▶ ☐

Signature and Consent	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.			
	 Signature of issuer's authorized representative	1/13/11 Date	Timothy P. Cahill, Treasurer and Receiver-General Type or print name and title	
Paid Preparer's Use Only	Preparer's signature 	1/11/11 Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN P01071242
	Firm's name (or yours if self-employed), address, and ZIP code Mintz Levin Cohen Ferris Glovsky and Popeo, P.C. One Financial Center, Boston, MA 02111	EIN 04 : 2718459	Phone no. (617) 542-6000	

December 1, 2010

The Honorable Timothy P. Cahill
Treasurer and Receiver-General
State House
Boston, Massachusetts 02133

Re: The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A, dated August 1, 2010, as described below (the "Bonds").

Dear Treasurer Cahill:

We have examined certified copies of legislation authorizing the Bonds and other papers submitted in connection therewith.

The Bonds mature on August 1 in each of the years set forth below, in principal amounts equal to the initial principal amount of each maturity set forth below plus accreted interest from August 1, 2010 to but not including the maturity date compounded on each August 1 at an annual interest rate equal to the change in the Consumer Price Index - All Urban Consumers, All Items, plus 2.00% (the "Accreting Interest"), all as set forth in the Bonds:

<u>Due</u> <u>August 1</u>	<u>Initial</u> <u>Principal</u> <u>Amount</u>	<u>Due</u> <u>August 1</u>	<u>Initial</u> <u>Principal</u> <u>Amount</u>
2015	\$1,850,896.66	2023	\$329,729.00
2016	908,645.16	2024	333,831.53
2017	615,213.08	2025	335,151.50
2018	766,960.77	2026	402,377.50
2019	578,388.22	2027	518,821.26
2020	548,561.52	2028	236,496.83
2021	427,521.91	2029	118,102.33
2022	400,165.99	2030	55,035.00

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Hon. Timothy P. Cahill

December 1, 2010

Page 2

The Bonds of each maturity bear interest at a rate equal to the Accreting Interest, plus interest at a rate per annum of 0.50% of the initial principal amount thereof payable semi-annually on each August 1 and February 1, beginning February 1, 2011.

We have also examined the Bonds as executed. The Bonds are being issued by means of a book-entry system, with bond certificates immobilized at Bank of America, Boston, Massachusetts, as custodian (the "Custodian"), and not available for distribution to the public, evidencing ownership of the Bonds in such initial principal amounts as have been purchased by the beneficial owners of the Bonds under The U. Plan: The Massachusetts College Saving Program (the "Program") administered by the Massachusetts Educational Financing Authority, with transfers of ownership effected on the records of the Custodian pursuant to rules and procedures in effect under the Program.

The Bonds are not subject to redemption prior to maturity.

Based upon our examination, we are of the opinion that, under existing law:

(a) The Bonds have been duly authorized by The Commonwealth of Massachusetts, and the form of the Bonds which we have examined and the form of their execution are regular and proper.

(b) The Bonds are legal and valid general obligations of The Commonwealth of Massachusetts, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should further be noted that Chapter 29, Section 60B, of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth.

(c) It is more likely than not that interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with various requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the "adjusted current earnings" of

Hon. Timothy P. Cahill
December 1, 2010
Page 3

corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

(d) The Bonds and the interest or other income earned thereon are exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

(e) For federal and Massachusetts tax purposes, interest includes original issue discount, which with respect to a Bond is equal to the excess, if any, of the accreted amount of the Bond at maturity (i.e., the initial principal amount thereof plus Accreting Interest payable at maturity) over the initial offering price thereof to the public. Original issue discount accrues over the term of a Bond at a rate approximately equal to the Accreting Interest payable thereon.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

Divider

December 1, 2010

Massachusetts Educational Financing Authority
160 Federal Street
Boston, MA 02110

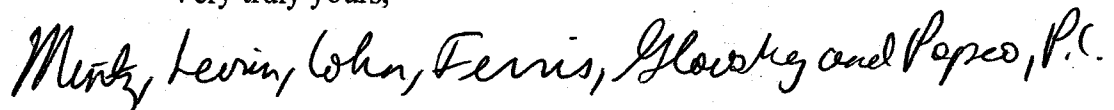
Bank of America, in its capacity
as Custodian
225 Franklin Street
Boston, MA 02110

Re: The Commonwealth of Massachusetts (the "Commonwealth") General
Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds,
Series A, dated August 1, 2010 (the "Bonds").

Sir or Madam:

Pursuant to Section 8(e)(4) of the Bond Purchase Agreement dated
November 30, 2010 among the Commonwealth, Bank of America and
Massachusetts Educational Financing Authority, we enclose herewith our
approving opinion addressed to the Commonwealth dated the date hereof with
respect to the Bonds. You may rely on such opinion to the same extent as if it were
addressed to you.

Very truly yours,



Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

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December 1, 2010

Honorable Timothy P. Cahill
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House, Room 227
Boston, Massachusetts 02133

Massachusetts Educational Financing
Authority
160 Federal Street
Boston, Massachusetts 02110

Honorable Jay Gonzalez
Secretary of Administration and Finance
The Commonwealth of Massachusetts
State House, Room 373
Boston, Massachusetts 02133

Bank of America, in its capacity
as Custodian
225 Franklin Street
Boston, Massachusetts 02110

Re: The Commonwealth of Massachusetts (the "Commonwealth") General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A, dated August 1, 2010 (the "Bonds").

Sir or Madam:

This opinion is delivered to you pursuant to Paragraph 8(e)(5) of the Bond Purchase Agreement dated November 30, 2010 (the "Bond Purchase Agreement") among the Commonwealth, the Massachusetts Educational Financing Authority and Bank of America, in its capacity as Custodian. Terms which are defined in the Bond Purchase Agreement are used herein as so defined.

We have acted as bond counsel to the Commonwealth with respect to the issuance and sale of the Bonds and have made such investigation of facts and examination of federal and Massachusetts law as we have deemed relevant for purposes of this opinion. We have also rendered legal advice and assistance to the Commonwealth in the course of and have participated in the preparation of the Offering Statement and the Commonwealth's Information Statement.

Based upon and subject to the foregoing, we are of the following opinion:

1. The Bond Purchase Agreement has been duly authorized, executed and delivered by the Commonwealth and constitutes the legal, valid and binding agreement of the Commonwealth.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

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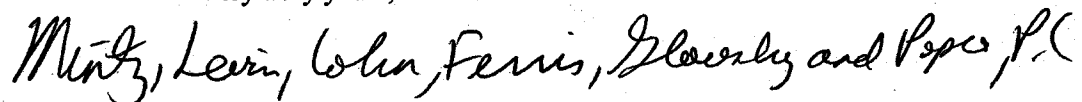
Hon. Timothy P. Cahill
Hon. Jay Gonzalez
Massachusetts Educational Financing Authority
Bank of America
December 1, 2010
Page 2

2. The Bonds comply with the provisions of the Massachusetts General Laws, Chapter 29, Section 49C and Chapter 15C.

3. The Bonds are exempt securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended, and Section 304(a)(4) of the Trust Indenture Act of 1939, as amended, and it is not necessary in connection with the sale of the Bonds to the public to register any security under the Securities Act of 1933, as amended, or to qualify any indenture under the Trust Indenture Act of 1939, as amended.

In addition, based upon our participation as bond counsel to the Commonwealth in the preparation of the Offering Statement, it is our opinion that the information contained in the 2010 Offering Statement under the headings "THE BONDS AND THE TUITION CERTIFICATES," "TAX MATTERS" and "SECURITY FOR THE BONDS AND TUITION CERTIFICATES" and under such headings in the Prior Offering Statements, as updated by the information contained under the headings "TERMS OF THE BONDS AND TUITION CERTIFICATES" and "UPDATED INFORMATION RELATING TO TAX MATTERS" in the 2010 Update, does not contain any untrue statement of a material fact and does not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading. Based upon our examination of the proceedings of the Commonwealth in connection with our opinion as to the validity of the Bonds and our participation in the preparation of the Offering Statement as aforesaid, and although we are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of any other statements contained in the Offering Statement (and except for the Information Statement, the financial and statistical data included in the Offering Statement, the information contained in the Exhibits to the Offering Statement, and references to such information in the Offering Statement and the Information Statement, as to all of which no opinion is expressed), no facts have come to our attention which would lead us to believe that the Offering Statement, as of the date thereof and as of the date hereof, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Very truly yours,



Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

December 1, 2010

Honorable Timothy P. Cahill
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House, Room 227
Boston, MA 02133

Massachusetts Educational Financing Authority
160 Federal Street
Boston, MA 02110

Honorable Jay Gonzalez
Secretary of Administration and Finance
The Commonwealth of Massachusetts
State House, Room 373
Boston, MA 02133

Bank of America, N.A., in its capacity
as Custodian
225 Franklin Street
Boston, MA 02110

We have acted as special disclosure counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance by the Commonwealth of its General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A (the "Bonds"). This opinion is rendered pursuant to paragraph 8(e)(6) of the Bond Purchase Agreement by and among the Massachusetts Educational Financing Authority, Bank of America, N. A., and the Commonwealth dated November 30, 2010 (the "Bond Purchase Agreement") relating to the Bonds, and capitalized terms not otherwise defined herein are used herein as defined in the Bond Purchase Agreement.

In our capacity as special disclosure counsel, we have participated in the preparation of the Information Statement, including participation in conferences with representatives of the Commonwealth at which the contents of the Information Statement and related matters were discussed and reviewed, and we have examined originals or copies certified or otherwise identified to our satisfaction of the letters, certificates and opinions of even date herewith provided to the Commonwealth pursuant to the Bond Purchase Agreement, certain letters and certificates delivered to the Treasurer and Receiver-General and Secretary of Administration and Finance of the Commonwealth relating to the Information Statement and various other documents, records and instruments which we have deemed appropriate.

We have made such examination of Massachusetts and federal law as we have deemed relevant for purposes of this opinion.

We are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Information Statement and make no representation that we have independently verified the accuracy, completeness or fairness of such statements contained therein. We do advise you, however, that in the course of our examination and

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Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

Hon. Timothy P. Cahill
Hon. Jay Gonzalez
Massachusetts Educational Financing Authority
Bank of America, N.A.
December 1, 2010
Page 2

participation in the preparation of the Information Statement as described above, no facts have come to our attention that have led us to believe that the Information Statement (except for the financial and statistical data included in the Information Statement, the information contained in the Exhibits thereto and references to such information in the Information Statement, as to all of which we express no opinion), as of May 1, 2010 and as supplemented and updated as required at all times subsequent thereto up to and including the date hereof, as of the date of each such supplement or update, and as of the date hereof, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading.

This letter is furnished by us as special disclosure counsel to the Commonwealth solely for the benefit of the parties to whom it is addressed and is not to be used, circulated, quoted or otherwise referred to in connection with the offering of the Bonds, except that reference to this letter may be made in any list of closing documents pertaining to the Bonds.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 capdlaw.com

December 1, 2010

The Honorable Timothy P. Cahill
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House
Boston, Massachusetts 02133

Massachusetts Educational Financing
Authority
160 Federal Street, 4th floor
Boston, Massachusetts 02110

The Honorable Jay Gonzalez
Secretary for Administration and Finance
The Commonwealth of Massachusetts
State House
Boston, Massachusetts 02133

Bank of America, in its capacity
as Custodian
225 Franklin Street
Boston, Massachusetts 02110

Re: \$8,425,898.26 The Commonwealth of Massachusetts General Obligation Bonds,
Consolidated Loan of 2010, College Opportunity Bonds, Series A (the "Bonds")

We have acted as special counsel to The Commonwealth of Massachusetts (the "Commonwealth") with respect to the preparation of the Offering Statement pertaining to The U. Plan: The Massachusetts College Saving Program (the "Program") established by the Commonwealth and the Massachusetts Educational Financing Authority (the "Authority"). This opinion is rendered pursuant to Paragraph 8(e)(7) of the Bond Purchase Agreement dated November 30, 2010 (the "Bond Purchase Agreement"), among the Commonwealth, the Authority and Bank of America, as Custodian for the Bonds, and capitalized terms not otherwise defined herein as used as defined in said Bond Purchase Agreement.

In our capacity as special counsel, we have rendered legal advice and assistance to the Commonwealth in the course of its establishment of the Program and the preparation of the Offering Statement. Rendering such assistance involved, among other things, discussions and inquiries concerning various legal and related matters pertaining to the Program and review of certain documents, including the Offering Statement.

We are not passing upon, and do not assume any responsibility for, the accuracy, completeness or adequacy of the statements contained in the Offering Statement and make no representation that we have independently verified such statements. However, in the course of our participation in the preparation of the Offering Statement as the Commonwealth's special counsel, no facts came to our attention that have caused us to conclude that the Offering Statement as of its date and as of the date hereof (except for the Information Statement of the Commonwealth, the financial and statistical data included in the Offering Statement and the information contained in

EDWARDS ANGELL PALMER & DODGE LLP

The Honorable Timothy P. Cahill, et al.

December 1, 2010

Page 2

the Exhibits to the Offering Statement and references to such information in the Offering Statement, as to all of which no opinion is expressed), contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

This letter is furnished by us as special counsel to the Commonwealth to you solely for your benefit and is not to be used, circulated, quoted or otherwise referred to in connection with the offering of the Bonds, except that reference to this letter may be made in any list of closing documents pertaining to the Bonds.



EDWARDS ANGELL PALMER & DODGE LLP

December 1, 2010

Massachusetts Educational Financing Authority
160 Federal Street
Boston, Massachusetts 02110

Re: The Commonwealth of Massachusetts (the "Commonwealth") General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A, dated August 1, 2010 (the "Bonds").

Sir or Madam:

This opinion is delivered to you pursuant to Paragraph 8(e)(8) of the Bond Purchase Agreement dated November 30, 2010 (the "Bond Purchase Agreement") among the Commonwealth, the Massachusetts Educational Financing Authority (the "Authority") and Bank of America, in its capacity as Custodian. Terms which are defined in the Bond Purchase Agreement are used herein as so defined.

We have rendered legal advice and assistance to the Authority in the course of and have participated in the preparation of the Offering Statement. Based upon and subject to the foregoing, we are of the opinion that the information contained in the first three paragraphs of the 2010 Offering Statement and in the 2010 Offering Statement under the heading "GENERAL PROGRAM DESCRIPTION" and in the first three paragraphs of, and under the heading "GENERAL PROGRAM DESCRIPTION" in, the Prior Offering Statements, as updated by the first paragraph of the 2010 Update, does not contain any untrue statement of a material fact and does not omit to state any material fact necessary to make the statement therein, in light of the circumstances under which they were made, not misleading. In addition, based upon such participation in the preparation of the Offering Statement, which participation and review was not intended to enable us to pass upon the accuracy, completeness or fairness of the statements contained in the Offering Statement, and although (except as described above) we are not passing upon and do not assume any responsibility for the accuracy or completeness of the statements contained in the Offering Statement (and except for the statements and the information contained in the Commonwealth's

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Massachusetts Educational Financing Authority
December 1, 2010
Page 2

Information Statement and references to such information in the Offering Statement, as to all of which no opinion is expressed), no facts have come to our attention which would lead us to believe that the Offering Statement, as of the date thereof, and as of the date hereof, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

December 1, 2010

Massachusetts Educational Financing Authority
160 Federal Street
Boston, Massachusetts 02110

Re: The Commonwealth of Massachusetts (the "Commonwealth") General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A, dated August 1, 2010 (the "Bonds").

Sir or Madam:

This opinion is delivered to you pursuant to Paragraph 8(e)(9) of the Bond Purchase Agreement dated November 30, 2010 (the "Bond Purchase Agreement") among the Commonwealth, the Massachusetts Educational Financing Authority (the "Authority") and Bank of America, in its capacity as Custodian, and Section 3.01 of the Custody Agreement dated February 1, 1995 between the Authority and Bank of America, formerly known as Fleet National Bank (formerly, Shawmut Bank, N.A.), as custodian. Terms which are defined in the Bond Purchase Agreement are used herein as so defined.

We are of the opinion that under current law:

- (i) the offer and sale of the Tuition Certificates in the manner contemplated in the Custody Agreement and the Offering Statement:
 - (a) are exempt from the registration requirements of Section 5 of the 1933 Act; (b) do not require registration of the Tuition Certificates under the Securities Exchange Act of 1934, as amended; (c) do not require any qualification of an indenture under the Trust Indenture Act of 1939, as amended; and (d) do not require registration of any person under or any exemption from the Investment Company Act of 1940, as amended;

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Massachusetts Educational Financing Authority

December 1, 2010

Page 2

- (ii) the Tuition Certificates and the Program described in the Offering Statement comply with the provisions of the Massachusetts General Laws, Chapter 29, Section 49C and Chapter 15C;
- (iii) interest on the Tuition Certificates will not be included in the gross income of the owners of the Tuition Certificates for federal income tax purposes to the same extent that interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. It is more likely than not that interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with various requirements of the Internal Revenue Code of 1986, as amended (the "Code"), which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds and therefore could cause interest on the Tuition Certificates to be included in the gross income of the owners of the Tuition Certificates retroactive to the date of issuance of the Bonds. While interest on the Bonds (and consequently on the Tuition Certificates) will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds (and consequently on the Tuition Certificates) will be included in the "adjusted current earnings" of corporate holders of the Bonds (and consequently of corporate owners of the Tuition Certificates) and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. Except as set forth in subparagraph (v) hereof, we express no opinion as to other federal tax consequences resulting from owning the Tuition Certificates.
- (iv) the Tuition Certificates and the interest or other income earned therein are exempt from Massachusetts personal income taxes, although the Tuition Certificates and said interest are included in the measure of certain corporate excise and franchise taxes and may be included in the measure of estate and franchise taxes;

Massachusetts Educational Financing Authority

December 1, 2010

Page 3

- (v) for federal and Massachusetts tax purposes, interest includes original issue discount, which with respect to a Tuition Certificate is equal to the excess, if any, of the accreted amount of the Tuition Certificate at maturity (i.e., the initial principal amount thereof plus Accreting Interest payable at maturity) over the initial offering price thereof to the public. Original issue discount accrues over the term of a Tuition Certificate at a rate approximately equal to the Accreting Interest payable thereon;
- (vi) the use of Tuition Certificates to make payments to a Participating Institution (as defined in the Enrollment Agreement) with respect to tuition for a Qualifying Beneficiary (as defined in the Enrollment Agreement) will not subject the Owner to the federal gift tax. Although the matter is not free from doubt, it is more likely than not that the gift tax provisions of Section 529 of the Code are inapplicable to the Tuition Certificates. However, if such provisions are deemed applicable, the purchase of a Tuition Certificate would constitute a completed gift by the owner to the designated beneficiary that would be subject to the federal transfer tax generally applicable to gifts. We express no opinion as to any federal gift tax consequences arising from other transfers involving the Tuition Certificates; and
- (vii) it is more likely than not that the application of the principal of and interest on a Tuition Certificate to pay for educational services at a Participating Institution will not generate taxable income to the Owner or Qualifying Beneficiary, even if the value of the educational services received exceeds the amount paid in exchange for such services.

MINTZ, LEVIN, COHN, FERRIS, GLOVSKY AND POPEO, P.C.

Massachusetts Educational Financing Authority

December 1, 2010

Page 4

Disclaimer re Tax Advice

The advice included in clauses (vi) and (vii) above is not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties under the Internal Revenue Code of 1986, as amended. Such advice is being delivered to support the promotion and marketing of the Tuition Certificates. Any purchaser of a Tuition Certificate should seek advice based on his or her particular circumstances from an independent tax advisor.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

CUSTODY AGREEMENT

This CUSTODY AGREEMENT, dated February 1, 1995, by and between Shawmut Bank, N.A., a national banking association having a corporate trust office at One Federal Street, Boston, Massachusetts 02211 (the "Custodian"), and the Massachusetts Educational Financing Authority, a body politic and corporate created by Chapter 15C of the General Laws of the Commonwealth of Massachusetts, having its principal business office at 176 Federal Street, Boston, Massachusetts 02110 (the "Authority").

WITNESSETH:

WHEREAS, it is desired to provide, as hereinafter set forth in this Custody Agreement, for the delivery on behalf of Program Bond Purchasers (hereinafter defined) of Program Bonds to the Custodian from time to time for the purposes set forth in this Custody Agreement and for the issuance hereunder of Certificates in respect of each Program Bond held by the Custodian.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants expressed herein, it is hereby agreed by and between the Custodian and the Authority as follows:

ARTICLE I

DEFINITIONS

The following definitions shall for all purposes, unless otherwise clearly indicated, apply to the respective terms used in this Custody Agreement:

Section 1.01. The term "Authority" shall mean the Massachusetts Educational Financing Authority, a body politic and corporate created by Chapter 15C of the General Laws of Massachusetts, as administrator of the Program.

Section 1.02. The term "Authorized Officer" shall mean, with respect to the Authority, the Executive Director and his or her designees; and with respect to the Custodian, any vice president, assistant vice president or corporate trust officer authorized to sign on behalf of the Custodian.

Section 1.03. The term "Certificate" shall mean the certificates issued by the Custodian representing a discrete fractional ownership interest in a Program Bond having a specified issuance date and maturity date.

Section 1.04. The term "Certificate Register" shall have the meaning specified in Section 3.03 hereof.

Section 1.05. The term "Certificate Holder Account Bank" shall mean the bank selected by the Authority for the establishment of Owner Accounts in accordance with the Enrollment Agreement, as identified by written notice from an Authorized Officer of the Authority to the Custodian at or before the time any transfer to the Certificate Holder Account Bank is required hereunder.

Section 1.06. The term "Contingent Coupon" shall mean an amount equal to the difference, if any, between (i) interest on the portion of the initial principal amount of a Program Bond represented by a particular Certificate compounded annually at a rate equal to the percentage change in the Consumer Price Index plus a maximum of 200 basis points and (ii) interest on such portion of a Program Bond compounded annually at a rate equal to the Standard Accrual Rate on such Program Bond. The Contingent Coupon shall be zero if the Standard Accrual Rate payable on the Program Bond is the percentage change in the Consumer Price Index plus 200 basis points. Contingent Coupons are only payable when Holders of Certificates apply Certificates towards tuition at a college or university that participates in the Program, as specified in the Enrollment Agreement. Terms pursuant to which Contingent Coupons are paid shall be set forth in the Supplement to this Custody Agreement relating to any Program Bonds issued with Contingent Coupons.

Section 1.07. The term "Current Coupon" shall mean current interest on the aggregate initial principal amount of Program Bonds payable at an annual rate of 50 basis points.

Section 1.08. The term "Current Coupon Payment Dates" shall mean, with respect to Current Coupons, each August 1 and February 1 while Program Bonds are outstanding, commencing as set forth in the applicable Supplement.

Section 1.09. The term "Custodial Account Agreement" shall mean the Custodial Account Agreement dated February 1, 1995 between Shawmut Bank, N.A. and the Authority as the same may be amended or supplemented from time to time.

Section 1.10. The term "Custodian" shall mean Shawmut Bank, N.A., and any successor as Custodian hereunder.

Section 1.11. The term "Custody Agreement" shall mean this Custody Agreement as the same may be amended or supplemented from time to time as provided herein.

Section 1.12. The term "Deposit Fund" shall mean an account established by the Authority pursuant to section 2.01 of the Custodial Account Agreement.

Section 1.13. The term "designated office in Boston," when used with respect to the Custodian, shall mean an office maintained in accordance with Section 6.02(a) hereof and designated by the Custodian in the City of Boston, Commonwealth of Massachusetts.

Section 1.14. The term "Enrollment Agreement" shall mean the contract between the Authority and a Purchaser pursuant to which the Purchaser agrees to purchase a Certificate in the Holder's name.

Section 1.15. The term "Holder" shall mean a person in whose name a Certificate is registered in the Certificate Register.

Section 1.16. The term "Issuer" shall mean The Commonwealth of Massachusetts.

Section 1.17. The term "Program" means The U. Plan: The Massachusetts College Savings Program, administered by the Authority pursuant to Chapter 15C of the General Laws of Massachusetts.

Section 1.18. The term "Program Bond" shall mean a College Opportunity Bond issued by the Commonwealth of Massachusetts and purchased and held in custody under this Custody Agreement for the benefit of Holders of Certificates. With respect to each delivery of Certificates hereunder, Program Bonds shall mean the Program Bonds specified in the Supplement to this Custody Agreement relating to such Certificates.

Section 1.19. The term "Proceeds" shall mean an amount payable upon the maturity of a Program Bond equal to the initial principal amount of a Program Bond compounded annually at a rate equal to the percentage change in the Consumer Price Index plus a maximum of 200 basis points.

Section 1.20. The term "Purchase Date" shall mean each date on which Program Bonds are to be issued by the Commonwealth and delivered to the Custodian.

Section 1.21. The term "Purchaser" shall mean an individual depositing funds for the purchase of a Certificate pursuant to an Enrollment Agreement.

Section 1.22. The term "Supplement" shall mean a Supplement to this Custody Agreement in the form of Exhibit A hereto, when executed by the Authority and accepted by the Custodian.

ARTICLE II

[Reserved]

ARTICLE III

CUSTODY OF PROGRAM BONDS; ISSUANCE OF CERTIFICATES

Section 3.01. Custody of Program Bonds. Whenever the Custodian and the Authority agree to the making of a deposit hereunder on behalf of the Purchasers, the Authority shall execute and the Custodian shall accept a Supplement to this Custody Agreement substantially in the form attached hereto as Exhibit A, which Supplement shall specify the maturities of Program Bonds and the aggregate principal amount of Program Bonds to be purchased and held in the name of the Custodian, the terms of any Contingent Coupons payable on the Program Bonds, the particulars of the Certificates evidencing such Program Bonds and the Purchase Date on which the Program Bonds are to be delivered. Each Certificate will be designated on the Custodian's records by the issue date and the maturity date of Program Bonds underlying such Certificate. The Authority shall deliver to the Custodian on behalf of the Purchasers from the Deposit Fund on the Purchase Date an amount equal to the purchase price of the Program Bonds to be purchased on the Purchase Date, and the Custodian shall forward such amount to the Commonwealth as payment for such Program Bonds upon receipt of such Program Bonds from the Commonwealth. Program Bonds shall be registered in the name of Shawmut Bank, N.A., as Custodian under this Agreement. Concurrently therewith or as soon thereafter as is practicable, the Custodian shall, in accordance with the provisions of this Custody Agreement, enter on the Certificate Register a book-entry for each Certificate constituting an interest in a Program Bond. The Custodian may rely on the information received from the Records Administrator as to the owners of each Certificate. The Authority shall in connection with or prior to the execution of each Supplement agree in writing with the Custodian on behalf of the Purchasers as to the payment of the charges and expenses of the Custodian in respect of such Certificates. In addition there shall be delivered in connection with each Supplement an opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. regarding certain Federal securities laws matters, which opinion shall be substantially in the form attached hereto as Exhibit B.

The Custodian shall accept the Program Bonds so delivered as custodian for the Holders of the Certificates which shall be delivered hereunder and shall hold the Program Bonds as provided hereunder. Program Bonds shall be held directly by the Custodian, in a special account created by separate recordation on its books, separate from all other assets of the Custodian.

The Custodian shall hold all the Program Bonds delivered to it pursuant to this Custody Agreement in custody only and shall not have the authority to assign, transfer, pledge, set-off or otherwise dispose of any of the Program Bonds or interests therein except as provided hereunder or as required by law.

A reasonable time prior to the delivery of Program Bonds to the Custodian, the Authority shall furnish the Custodian with written instructions (as applicable) as to the names, addresses and taxpayer identification numbers in which the Certificates evidencing such Program Bonds shall initially be issued and such other information as may be requested by the Custodian in connection with the book-entry delivery of such Certificates. Each Certificate shall evidence the ownership by the Holder thereof, to the extent indicated thereby, of a discrete interest in one of the Program Bonds identified by physical segregation of the Custodian.

Program Bonds shall be held by the Custodian at its designated office in Boston or at such other place or places as the Custodian shall determine.

Section 3.02. [Reserved.]

Section 3.02. Registration and Registration of Transfer and Exchange of Certificates. The Custodian shall keep at its designated office in Boston a register (the register maintained in such office being herein sometimes referred to as the "Certificate Register") in which, subject to such reasonable regulations as it may prescribe, the Custodian shall provide for the registration of Certificates and for the registration of transfers or exchanges of Certificates made pursuant to the Enrollment Agreement.

An Authorized Officer of the Authority shall notify the Custodian in writing upon any transfer of Certificates. Such notification shall contain the name, address and taxpayer identification number of the transferor and the transferee. Upon receipt of such notice, the Custodian shall provide for the registration of transfers or exchanges of Certificates in the Certificate Register.

Section 3.04. Limitations on Execution and Delivery, Registration of Transfer and Exchange of Certificates. As a condition precedent to the issuance, registration of transfer or exchange of any Certificates, the Custodian may require payment of a sum sufficient for reimbursement of any tax or other governmental charge with respect thereto, may require the production of proof reasonably satisfactory to it as to the identity and genuineness of any signature and may also require compliance with such regulations if any, as the Custodian may reasonably establish consistent with the provisions of this Custody Agreement. In addition, upon registration of transfer or exchange of any Certificates, the Custodian may require payment of its then applicable service charge.

The registration of transfer or exchange of outstanding Certificates may be suspended if any such suspension is deemed necessary or advisable by the Custodian at any

date or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of this Custody Agreement, or for any other reason which makes such surrender or registration of transfer or exchange or withdrawal impracticable.

ARTICLE IV

CERTAIN OBLIGATIONS OF HOLDERS OF CERTIFICATES

Section 4.01. Payment of Taxes or Other Governmental Charges. If any tax or other governmental charge shall become payable by or on behalf of the Custodian, including any tax or charge required to be withheld from any payment made to or by the Custodian under the provisions of any applicable law, with respect to any Certificates or with respect to the Proceeds of Program Bonds evidenced by any such Certificates, such tax or governmental charge shall be payable by the Holders of such Certificates and may be so withheld by the Custodian. The registration of transfer or exchange of any Certificates may be refused until such payment is made.

ARTICLE V

PAYMENT OF COUPONS AND PROCEEDS

Section 5.01. Payment of Program Bonds. In the case of payments of Coupons, the Issuer shall pay to the Custodian the full amount of Coupons due on each Coupon Payment Date. The Custodian shall confirm receipt of the Coupon amounts due and, pursuant to assignments executed by the Holders in their Enrollment Agreements, will pay such amounts to or for the account of the Authority as directed in writing by an Authorized Officer of the Authority.

In the case of Proceeds of Program Bonds held by the Custodian, the Issuer shall pay such Proceeds to the Custodian. The Custodian shall confirm receipt of the Proceeds due and will forward the Proceeds to the Certificate Holder Account Bank with instructions as to the allocation of the Proceeds among the Holders of Certificates.

In the case of Contingent Coupons payable on Program Bonds held by the Custodian, payment terms shall be set forth in the Supplement executed at the time of issuance of Program Bonds to which such Contingent Coupons relate.

If for any reason the Issuer shall have made payment with respect to Proceeds of a Program Bond only in part, the Custodian shall instruct the Certificate Holder Account Bank to make payment pro rata among all Holders of Certificates related to such Program Bond.

Section 5.02. Segregation of Moneys Received from Issuer in Respect of Program Bonds. All moneys received from the Issuer of Program Bonds or otherwise by the Custodian in respect of Program Bonds evidenced by Certificates issued hereunder shall be held by it without interest in a special account for each issue of Program Bonds held in custody until required to be disbursed in accordance with the provisions of this Custody Agreement or as otherwise required by law and such moneys will be segregated by separate recordation on the books and records of the Custodian.

ARTICLE VI

THE CUSTODIAN AND THE AUTHORITY

Section 6.01. No Liability of the Custodian or the Authority on the Program Bonds; Holder to Proceed Directly against the Issuer. The sole obligor with respect to any Program Bond is the Issuer thereof. Neither the Custodian nor the Authority shall have any obligation on or with respect to the Program Bonds or parts thereof except as provided in this Section 6.01 with respect to the Custodian; and their respective obligations with respect to Certificates shall be solely clerical or ministerial in nature as set forth in this Custody Agreement or any Supplement hereto.

If the Issuer of a Program Bond defaults on the payment of any Current Coupon, Contingent Coupon or Proceeds which is evidenced by a Certificate, the Custodian shall promptly give notice to the Authority and to Holders thereof as provided in Section 8.04 hereof. Such notice shall set forth (a) the identity of the issue and maturity of Program Bonds, (b) the date and nature of such default, and (c) any other information which the Custodian may deem appropriate.

Neither the Custodian nor the Authority is authorized to proceed against the Issuer of any Program Bonds in the event of a default or to assert the rights and privileges of Holders of Certificates and has no duty to do so, except that the Custodian, at the request of any Holder of a Certificate (but at the expense and risk of the Holder), shall take such action, in its capacity as Custodian and, as the nominal holder of the Program Bond to which the Certificate owned by such Holder relates, as may be necessary or appropriate to preserve the rights of such Holder to proceed directly and individually against the Issuer of the underlying Program Bond. The Custodian shall not be required, however, to take any action pursuant to this paragraph unless reasonable indemnity is furnished for any expense or liability to be incurred thereby.

Except as provided in the immediately succeeding paragraph, in the event of the receipt of money or other property resulting from any arrangement with creditors which results in the cancellation, or a change in the payments to be received by a holder of a Program Bond, the Custodian shall promptly give notice, as provided in Section 8.04 hereof, to the Holders of the Certificates then outstanding and unpaid. Such notice shall state that,

not later than ninety (90) days after the receipt of such moneys or other property, the Custodian shall distribute such moneys or other property in accordance with the characterization given such payment by the issuer of the Program Bonds. Amounts so characterized as Current Coupons shall be distributed to or upon the order of the Authority; amounts so characterized as Proceeds shall be distributed, pro rata, to Holders of Certificates. In the event that no characterization is made or the characterization is not clear, the Custodian shall bring an action in a court of competent jurisdiction within The Commonwealth of Massachusetts seeking to have such court determine the relative rights of the Holders of Certificates to any such payments. The expenses of such action incurred by the Custodian shall be paid by the Holders of the Certificates to the extent of the payments received by the Custodian.

Neither the Custodian nor the Authority shall be under any obligation whatsoever to appear in, prosecute or defend any action, suit or other proceeding in respect of Program Bonds or Certificates.

Section 6.02. Maintenance of Offices and Agencies by the Custodian. Until termination of this Custody Agreement in accordance with its terms, the Custodian shall maintain (a) facilities in the City of Boston, Commonwealth of Massachusetts, for the execution and delivery, payment, and registration of transfer and exchange of Certificates, all in accordance with the provisions of this Custody Agreement, and (b) such other agents, if any, according to such terms and conditions as the Custodian and the Authority may agree from time to time.

Section 6.03. Prevention or Delay in Performance by the Custodian or the Authority. Neither the Custodian nor the Authority shall incur any liability to any Holder of any Certificates if, by reason of any provision of any present or future law or regulation thereunder, of any governmental authority, or by any reason of any act of God or war or other circumstance beyond the control of the relevant party, the Custodian or the Authority shall be prevented or forbidden from doing or performing any act or thing which the terms of this Custody Agreement provide shall be done or performed; and neither the Custodian nor the Authority shall incur any liability to any Holder of a Certificates by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which the terms of this Custody Agreement provide shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in this Custody Agreement.

Section 6.04. Obligations of the Custodian and the Authority. Neither the Custodian nor the Authority assume any obligation or shall be subject to any liability under this Custody Agreement to Holders of Certificates, other than by reason of willful misconduct, bad faith or gross negligence, in the performance of such duties as are specifically set forth in this Custody Agreement. Neither the Authority nor the Custodian shall be under any obligation to take any action hereunder which may tend to involve it in

any expense or liability, the payment of which within a reasonable time is not, in its reasonable opinion, assured to it.

Neither the Custodian nor the Authority shall be liable to any Holder of any Certificates for any action or inaction by it in reliance upon the advice of or information from legal counsel, accountants, any Holder of a Certificate or any other person believed by it in good faith to be competent to give such advice or information. The Custodian and the Authority may each rely and shall each be protected in acting upon any written notice, request, direction or other document believed by it to be genuine and to have been signed or presented by the proper party or parties.

The Custodian shall at all times maintain a fidelity bond in such reasonable form and amount as commercial banks customarily provide to protect against loss due to dishonest or fraudulent action by its employees in connection with its obligations hereunder.

The Custodian makes no representations as to the validity or sufficiency of the Certificates or as to the validity, sufficiency, worth or tax exempt status of the Program Bonds relating thereto.

Section 6.05. Resignation and Removal of the Custodian; Appointment of Successor Custodian. The Custodian may resign as Custodian hereunder during any period when it is not also the Program Recordkeeper by written notice of its election so to do, delivered to the Authority, and such resignation shall take effect upon the appointment of a successor Custodian and its acceptance of such appointment as hereinafter provided; provided, however, that in the event of such resignation, the Custodian shall (a) use its best efforts to assist the Authority in finding a successor Custodian acceptable to the Authority, (b) reimburse the Authority for any fees or charges previously paid to the Custodian in respect of duties not yet performed under this Custody Agreement which remain to be performed by a successor Custodian in the amount specified in the fee agreement then in effect between the Custodian and the Authority, and (c) pay or reimburse the Authority for all reasonable transition costs. The Custodian may not resign as Custodian hereunder during any period that it is the Program Recordkeeper.

The Authority may at any time remove the Custodian for cause as Custodian hereunder by written notice at its election to do so, delivered to the Custodian as provided in Section 6.04 hereof, and such removal shall take effect upon the appointment of a successor Custodian and its acceptance of such appointment as provided in the succeeding paragraphs.

If at any time the Custodian shall become incapable of acting or shall be adjudged a bankrupt or insolvent, or a receiver of the Custodian or of its property shall be appointed, or any public officer shall take charge or control of the Custodian or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then any Holder of a Certificate with respect to a particular issue of Program Bonds which has been such a Holder for at least six (6) months may, on behalf of himself or themselves and all

others similarly situated, petition any court of competent jurisdiction for the removal of the Custodian with respect to the Program Bonds evidenced by such Certificates and the appointment of a successor Custodian. In the event the Custodian is removed, the Custodian shall reimburse the Authority for any fees or charges previously paid to the custodian in respect of duties not yet performed under this Custody Agreement which remain to be performed by a successor Custodian in the amount specified in the fee agreement then in effect between the Custodian and the Authority.

In case at any time the Custodian acting hereunder notifies the Authority that it elects to resign or the Authority notifies the Custodian that it elects to remove the Custodian as Custodian, the Authority shall, within ninety (90) days after the delivery of the notice of resignation or removal, appoint a successor Custodian, which shall be a bank or trust company having its principal office in the United States of America; and having a combined capital and surplus of at least \$50,000,000. If no successor Custodian has been appointed as successor Custodian within ninety (90) days after the Custodian has given written notice of its election to resign or the Authority has given written notice to the Custodian of its election to remove the Custodian, as the case may be, the Custodian may petition any court of competent jurisdiction for the appointment of a successor Custodian. Every successor Custodian shall execute and deliver to its predecessor and to the Authority an instrument in writing accepting its appointment hereunder, and thereupon such successor Custodian, without any further act or deed, shall become fully vested with all the rights, powers, duties and obligations of its predecessor and for all purposes shall be the Custodian under this Custody Agreement; and such predecessor, upon payment of all sums due it and on the written request of the Authority, shall execute and deliver an instrument transferring to such successor all rights, obligations and powers of such predecessor hereunder, and shall duly assign, transfer and deliver all right, title and interest in the Program Bonds and parts thereof to such successor. Any successor Custodian shall promptly give notice of its appointment to the Holders of Certificates for which it is successor Custodian as provided in Section 3.04 hereof. The Authority's obligation to indemnify the Custodian as set forth in Section 6.08 hereof shall continue after the Custodian resigns.

Any corporation into or with which the Custodian may be merged, consolidated or converted shall be the successor of such Custodian without the execution or filing of any document or any further act.

Section 6.06. Charges and Expenses. Except as otherwise provided in this Custody Agreement, no charges and expenses of the Custodian shall be payable by or withheld from any person other than the Authority, except for any taxes and other governmental charges. In full payment and satisfaction of all other charges and expenses of the Custodian (including, in each case, fees and expenses of counsel) incidental to the performance of its obligations hereunder, the Authority shall pay the Custodian according to the fee schedule attached hereto as Exhibit C. Notwithstanding the foregoing, no fees shall be payable by the Authority to the Custodian in connection with the functions performed by

the Custodian under this Custody Agreement during any period in which the Custodian is also the Program Recordkeeper.

Section 6.07. Voting and Consents; Reports from Custodian; Communication by Holders with other Holders; Certificate Holders Lists. Except as hereinafter provided, in the event of any action or consent requiring the vote of the owners of any Program Bonds, the Custodian shall deliver to the Holders of Certificates related thereto its proxy for such vote, returnable to the Custodian, who shall vote solely in accordance with such proxies. The Authority shall reimburse the Custodian for its out-of-pocket expenditures incurred in connection with such communications with Holders.

In the event of any action or consent requiring the vote of the owners of an issue of Program Bonds, the Custodian shall request instructions from the Holders of the Certificates relating thereto. The Custodian shall use its best efforts to vote the Program Bonds as nearly as may be within the same proportion (determined in accordance with Holders' share of Proceeds (calculated as though the Bonds had matured on the previous compounding date) at the time the Custodian votes) as the instructions received (or not received).

Section 6.08. Indemnification. The Authority agrees to indemnify and hold the Custodian harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder and which are not due to its negligence, bad faith or willful misconduct.

ARTICLE VII

AMENDMENT AND TERMINATION

Section 7.01. Amendment. The form of the Certificate and any provisions of this Custody Agreement may at any time and from time to time be amended by agreement between the Authority and the Custodian in any respect which they may deem necessary or desirable, provided that in no event shall any amendment defer or alter the maturity of a Certificate or in any other manner adversely affect the rights of a Holder of a Certificate or the Authority in the Coupons, Contingent Coupons or Proceeds payable on account of such Certificates or otherwise materially prejudice any substantial existing right of the Holders of the Certificates. Every Holder of a Certificate at the time any such amendment so becomes effective shall be deemed by continuing to hold such Certificate, to consent and agree to such amendment and to be bound by this Custody Agreement as amended thereby.

Section 7.02. Termination. This Custody Agreement shall terminate only upon the happening of all of the following: (i) the Custodian no longer holds any Program Bonds; (ii) the Custodian has disposed of all Contingent Coupons in accordance with the terms of the Supplement; and (iii) all Proceeds of Program Bonds for which Certificates were

issued pursuant to this Custody Agreement have been received by the Custodian and forwarded to the Certificate Holder Account Bank. Upon the termination of this Custody Agreement, the Authority shall be discharged from all obligations under this Custody Agreement except for its obligations to the Custodian under Sections 6.06 and 6.08 hereof.

ARTICLE VIII

MISCELLANEOUS

Section 8.01. Counterparts. This Custody Agreement, and any Supplement hereto, may be executed in any number of counterparts by the parties thereto on separate counterparts, each of which (or each full set of separately signed counterparts), when so executed and delivered, shall be deemed an original, but all such counterparts shall together constitute one and the same instrument. Copies of this custody Agreement and each Supplement hereto shall be filed with the Custodian and shall be open to inspection during business hours at the Custodian's designated office in Boston by any Holder of a Certificate.

Section 8.02. Exclusive Benefit of Parties and Holders of Certificates.
Effective Date. This Custody Agreement is for the exclusive benefit of the parties hereto, their respective successors hereunder, and Holders of Certificates, and shall not be deemed to give any legal or equitable right, remedy or claim to any other person whatsoever. The Holders from time to time shall be beneficiaries of this Custody Agreement and shall be bound by all the terms and conditions hereof and of the Certificates by acceptance of delivery thereof. This Custody Agreement shall become effective as to the Custodian and the Authority upon the acceptance by the Custodian of a Supplement of the Authority and the receipt by the Custodian of the Program Bonds deposited therewith. The Custodian, the Authority and the Purchasers intend that for federal income tax purposes and otherwise each Holder shall be treated as the owner of his or her discrete portion, as indicated in his or her respective Certificate, of the applicable Program Bond.

Section 8.03. Invalidity of Provisions. In case any one or more of the provisions contained in this Custody Agreement, including any Supplement hereto, or contained in the Certificates should be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall in no way be affected, prejudiced or disturbed thereby.

Section 8.04. Notices. Any and all notices to be given to the Authority shall be deemed to have been duly given if personally delivered or sent by mail or telegram or telex confirmed by letter addressed to the address set forth in the Supplement to this Custody Agreement relating to Certificates evidencing Program Bonds or parts thereof deposited by the Authority, or at any other place to which the Authority may have transferred its principal executive office.

Any and all notices to be given to the Custodian shall be deemed to have been duly given if personally delivered or sent by mail or by telegram, or by telex or facsimile transmission confirmed by letter, addressed to the Custodian at One Federal Street, Boston, Massachusetts 02211 Attention: Corporate Trust Department, or to such other place which the Custodian may have designated in writing to the Authority.

Any and all notices to be given to any Holder shall be deemed to have been duly given, whether or not received, if given by mail, first class postage prepaid, to each Holder at such Holder's address as it appears in the Certificate Register. Neither the failure to mail such notice, nor any defect in any notice so mailed, in any particular Holder shall affect the sufficiency of such notice with respect to other Holders.

Section 8.05. Governing Law. This Custody Agreement and the Certificates shall be governed by, and construed in accordance with, the laws of The Commonwealth of Massachusetts.

Section 8.06. Headings. The headings of articles and sections in the Custody Agreement have been inserted for convenience only and are not to be regarded as a part of this Custody Agreement or to have any bearing upon the meaning or interpretation of any provision contained herein or in the Certificates.

Section 8.07. Limited Recourse. The obligations of the Authority under this Agreement are limited obligations payable only from moneys received by or available to the Authority in connection with the Program, and no recourse shall be had by the Custodian against the general funds of the Authority or any other funds of the Authority in connection with any obligation arising out of this Agreement, the Program or any related transaction. No recourse shall be had for the payment of any such obligation against any member, officer or employee of the Authority.

SHAWMUT BANK, N.A., as
Custodian

By: 
Vice President

MASSACHUSETTS EDUCATIONAL
FINANCING AUTHORITY,

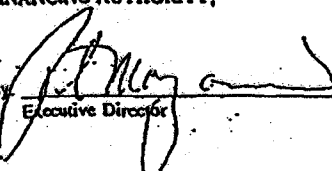
By: 
Executive Director

EXHIBIT A

FORM OF SUPPLEMENT

Supplement Number _____
to Custody Agreement

[Date]

as Custodian

Boston, Massachusetts

Ladies and Gentlemen:

This is with reference to the Custody Agreement, dated as of _____, as amended to the date hereof (the "Custody Agreement"), between _____ (the "Custodian") and _____ (the "Authority"). The Custodian has received on the date hereof the aggregate principal amount of Program Bonds designated and described in Appendix A attached hereto. The Custodian agrees to register on its books Certificates in the amounts and denominations set forth in Appendix A-1 hereto. Certificates shall be in the form set forth in Appendix B hereto.

The Authority agrees to be bound by the terms of the Custody Agreement with respect to all matters relating to the Program Bonds deposited concurrently with this Supplement Number _____ or the Certificates evidencing such Program Bonds relating thereto, including the obligations under Sections 6.06 and 6.08 of the Custody Agreement. The terms of the Custody Agreement are incorporated herein by reference.

[State any method, manner and time of payment unique to the Certificates of this series, including Contingent Coupons, and record dates.]

[Specify any restrictions on the transfer and exchange provisions unique to the Certificates of this series.]

[Specify any special instructions as to distributions upon default or as to voting or consents.]

Accompanying this Supplement Number _____ is the opinion of _____ in the form of Exhibit B to the Custody Agreement, with appropriate modifications.

All terms used in this Supplement Number ____ shall have meanings ascribed to them in the Custody Agreement.

Very truly yours,

Massachusetts Educational
Financing Authority

By: _____
Title: _____

[Massachusetts Educational Financing Authority]
176 Federal Street
Boston, MA 02110

Ladies and Gentlemen:

We hereby accept Supplement Number ____ to the Custody Agreement,
acknowledge receipt of the aggregate principal amount of Program Bonds described therein,
recognize the signatory of such Supplement by the Authority as to such Program Bonds and
will register in book-entry form the Certificates described in said Supplement.

Very truly yours,

as Custodian

By: _____
Title:

Appendix A

Program Bond:

Dated:
Original Principal Maturity Date:
Original Par Value Amount Issued:
CUSIP Number:
Stated Interest Rate:
Interest Payment Dates:

The Program Bond will be held in certificate form at the designated office of the Custodian.



Item
Number

Owner

Initial
Face Amount

Appendix A-1

Appendix B

Form of Certificate

EXHIBIT B

FORM OF OPINION OF COUNSEL

as Custodian

Boston, Massachusetts

Ladies and Gentlemen:

This opinion is rendered in connection with the Custody Agreement, dated as of _____ (the "Custody Agreement"), between _____ (the "Authority") and _____ (the "Custodian"), providing for the custody of the specific issues of Commonwealth College Opportunity Bonds (the "Program Bonds") and for the delivery as contemplated therein of custodial receipts (the "Certificates") representing discrete beneficial ownership interests in respect of the Program Bonds.

We, as counsel for the Authority, have examined the Custody Agreement and such other documents and questions of law as we have considered necessary or appropriate for the purposes of this opinion. For the purpose of rendering this opinion we have assumed that the Program Bonds are exempt from the registration requirements under the Securities Act of 1933, as amended (the "1933 Act").

Upon the basis of the examination described above, we advise you that, in our opinion, the offer, sale and delivery of the Certificates would not require: (i) any registration of the Certificates under the 1933 Act or the Securities Exchange Act of 1934, as amended; (ii) any qualification of an indenture under the Trust Indenture Act of 1939, as amended; or (iii) any registration under or exemption from the Investment Company Act of 1940, as amended.

This opinion is addressed to, and may be relied upon by, only you, as Custodian.

Very truly yours,

47587.1

**EXHIBIT C
FEES AND PRICING**

CUSTODIAN:
(Fee Schedule while serving in the dual capacity
of Custodian and Records Administrator)

ACCEPTANCE FEE:	Waived
ANNUAL ADMINISTRATION FEE:	Waived
TRANSACTION FEES:	
Form 1099 Issuance	\$2.50 per 1099

CUSTODIAN:
(Fee Schedule as Custodian Only)

ACCEPTANCE FEE:	\$5,000
ANNUAL ADMINISTRATION FEE:	\$5,000
TRANSACTION FEES: *	
Form 1099 Issuance	\$2.50 per 1099

SUPPLEMENT NUMBER 16

Supplement Number 16
to Custody Agreement

December 1, 2010

Bank of America
as Custodian
225 Franklin Street
Boston, Massachusetts 02110

Ladies and Gentlemen:

This is with reference to the Custody Agreement, dated as of February 1, 1995, as amended to the date hereof (the "Custody Agreement"), between Bank of America, formerly known as Fleet National Bank (formerly, Shawmut Bank, N.A.) (the "Custodian") and the Massachusetts Educational Financing Authority (the "Authority"). The Custodian has received on the date hereof the aggregate principal amount of Program Bonds designated and described in Appendix A attached hereto. The Custodian agrees to register on its books Certificates in the amounts and denominations set forth in Appendix A-1 hereto. Certificates shall be in the form set forth in Appendix B hereto, and may be maintained in book-entry form.

The Authority agrees to be bound by the terms of the Custody Agreement with respect to all matters relating to the Program Bonds deposited concurrently with this Supplement Number 16 or the Certificates evidencing such Program Bonds relating thereto, including the obligations under Sections 6.06 and 6.08 of the Custody Agreement. The terms of the Custody Agreement are incorporated herein by reference.

The initial Current Coupon Payment Date shall be February 1, 2011. There is no Contingent Coupon with respect to any of the Program Bonds.

The record date for principal and interest payments will be the business day next preceding a Current Coupon Payment Date.

Restrictions on the transfer of Certificates are set forth in Section 4.03, 4.04 and 4.05 of the Enrollment Agreement.

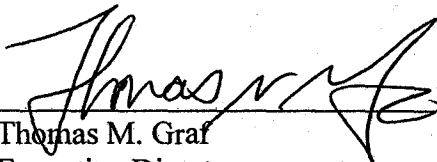
Accompanying this Supplement Number 16 is the opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. in the form of Exhibit B to the Custody Agreement, with appropriate modifications.

All terms used in this Supplement Number 16 shall have meanings ascribed to them in the Custody Agreement.

Very truly yours,

Massachusetts Educational
Financing Authority

By: _____


Thomas M. Graf
Executive Director

Massachusetts Educational Financing Authority
160 Federal Street, 4th floor
Boston, MA 02110

Ladies and Gentlemen:

We hereby accept Supplement Number 16 to the Custody Agreement, acknowledge receipt of the aggregate principal amount of Program Bonds described therein, recognize the signatory of such Supplement by the Authority as to such Program Bonds and will register in book-entry form the Certificates described in said Supplement.

Very truly yours,

Bank of America
as Custodian

By: James Lewis
Title: Custody Specialist I

Appendix A

Program Bonds: The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2010, College Opportunity Bonds, Series A

Dated: August 1, 2010

Stated Interest Rate: Current Coupon: 50 basis points per annum

Accreted Amount: The Initial Principal Amount Issued increased on each August 1, beginning August 1, 2010, to and including the applicable Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

Standard Accrual Rate: Interest at an annual rate equal to the percentage change in the Index since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

Index: Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

Interest Payment Dates: February 1 and August 1, commencing February 1, 2011

<u>Maturity Year (August 1)</u>	<u>Initial Principal Amount</u>
2015	\$1,850,896.66
2016	908,645.16
2017	615,213.08
2018	766,960.77
2019	578,388.22
2020	548,561.52
2021	427,521.91
2022	400,165.99
2023	329,729.00
2024	333,831.53
2025	335,151.50
2026	402,377.50
2027	518,821.26
2028	236,496.83
2029	118,102.33
2030	<u>55,035.00</u>
TOTAL	\$8,425,898.26

The Program Bonds will be held in certificate form at the designated office of the custodian.

Appendix A-1

Item
Number

Owner

Initial
Principal Amount

Maturity
Date

No.:

Initial Principal

Amount: \$.....

Maturity Date:.....

 [Owner] , or registered assigns, is the owner of a discrete fractional interest equal to the above-referenced Initial Principal Amount in a Bond of the above-referenced Maturity Date. The sole obligor with respect to the Bond is The Commonwealth of Massachusetts (the "Issuer"). The Bond is being held in custody by Bank of America or its successor as Custodian under a Custody Agreement, dated February 1, 1995, as amended and supplemented from time to time (the "Custody Agreement"). This certificate (the "Certificate") evidencing ownership of a discrete fractional interest in the Bond of the above-referenced Maturity Date, is issued pursuant to the Enrollment Agreement between the Massachusetts Educational Financing Authority and the Owner (the "Enrollment Agreement") included in the Program Description and Offering Statement dated as of May 1, 2010 relating to the Bonds. Ownership of this Certificate will be registered on the books of the Custodian.

An amount equal to the Accreted Amount of this Certificate will be payable on the Maturity Date. In addition, interest on the Initial Principal Amount hereof will be payable semiannually on February 1 and August 1 of each year, commencing February 1, 2011, at the rate of Fifty Hundredths Percent (.50%) per annum, calculated on the basis of 30-day months and a 360-day year, until such principal sum is paid or has been provided for. Such amounts will be payable only out of payments received from the Issuer of the Bond.

The "Accreted Amount" of this Certificate is the Initial Principal Amount increased on each August 1, beginning August 1, 2010, to and including the Maturity Date by adding to the Accreted Amount in effect on the prior August 1 the dollar amount obtained by applying the Standard Accrual Rate (defined below) in effect since the prior August 1 to the Accreted Amount as of such prior August 1.

The "Standard Accrual Rate" for this Certificate means interest at an annual rate equal to the percentage change in the Index (defined below) since the prior August 1, plus 200 basis points. If the percentage change in the Index during any compounding period is negative, such negative percentage will be deducted from the number of basis points added pursuant to the preceding sentence, but if the resulting percentage is negative or zero, no adjustment will be made to the prior Accreted Amount.

The "Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics in July, 2010 and during July of each subsequent year until the Maturity Date, or, if such index is eliminated, any successor to such index.

The minimum authorized denomination of the Certificate is \$300.00 in initial principal amount.

Payment on this Certificate will be made to or for the Owner's account as provided in the Enrollment Agreement.

BANK OF AMERICA,
as Custodian

By: _____

Certificate of Custodian

The undersigned, an Authorized Officer of Bank of America, acknowledges receipt of the amount set forth in Schedule A, attached hereto, from the Massachusetts Educational Financing Authority and shall credit such amount on December 1, 2010 to The Commonwealth of Massachusetts pursuant to the following instructions:

Sovereign Bank
ABA # 011075150
Account #: 00088880000
Commonwealth of Massachusetts -
Central Deposit

Dated: December 1, 2010

Bank of America,
as Custodian

By:

Frances Lewis

Title:

Custody Specialist I

Schedule A

Principal Amount	\$8,425,898.26
Plus: Accrued Interest	<u>283.94</u>
Net Proceeds to the Commonwealth:	<u>\$8,426,182.20</u>

CUSTODIAL ACCOUNT AGREEMENT

This CUSTODIAL ACCOUNT AGREEMENT, dated February 1, 1995, by and between Shawmut Bank, N.A., a national banking association having a corporate trust office at One Federal Street, Boston, MA 02211 (the "Bank"), and the Massachusetts Educational Financing Authority, a body politic and corporate created by Chapter 15C of the General Laws of the Commonwealth of Massachusetts, having its principal business office at 176 Federal Street, Boston, Massachusetts 02110 (the "Authority").

WITNESSETH:

WHEREAS, under the U. Plan: The Massachusetts College Saving Program, Purchasers make deposits into U. Plan savings accounts established at Shawmut Bank, N.A. for the purpose of investing in Certificates;

WHEREAS, pursuant to the Enrollment Agreement, the Authority has agreed, in certain circumstances, to refund to the Purchasers some or all of their deposit;

WHEREAS, during the Enrollment Period amounts in each Purchaser's U. Plan savings account will be transferred daily to the Authority's Deposit Fund established pursuant to this Custodial Account Agreement;

WHEREAS, it is desired to provide, as hereinafter set forth in this Custodial Account Agreement, for the investment of the Deposit Fund;

WHEREAS, it is desired to make similar provisions with respect to Application Fees and Processing Fees paid by Purchasers pursuant to the Enrollment Agreement;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants expressed herein, it is hereby agreed by and between the Bank and the Authority as follows:

ARTICLE I

DEFINITIONS

Except as provided in this Article, all terms used herein shall have the same meanings as are given such terms in the Enrollment Agreement or Custody Agreement, as applicable.

The following definitions shall for all purposes, unless otherwise clearly indicated, apply to the respective terms used in this Custodial Account Agreement:

Section 1.01. The term "Allocation Date" shall mean the date on or about April 30 when the Authority determines whether, in light of the aggregate demand for Certificates of the requested maturity or maturities, the Deposits made by Purchasers exceed the amount that can be invested in the requested Certificates.

Section 1.02. The term "Application Fee" means the fee charged by the Authority for each application for acceptance into the Program, as established by the Authority from time to time.

Section 1.03. The term "Application Fee Fund" shall mean an account by that name established with the Bank pursuant to section 3.01 of this Agreement.

Section 1.04. The term "Authority" shall mean the Massachusetts Educational Financing Authority, a body politic and corporate created by Chapter 15C of the General Laws of Massachusetts.

Section 1.05. The term "Authorized Officer" shall mean, with respect to the Authority, the Executive Director and his or her designees; and with respect to the Bank, any vice president, assistant vice president or corporate trust officer authorized to sign on behalf of the Bank.

Section 1.06. The term "Custodial Account Agreement" shall mean this Custodial Account Agreement as the same may be amended or supplemented from time to time as provided herein.

Section 1.07. The term "Custody Agreement" shall mean the Custody Agreement dated February 1, 1995 between Shawmut Bank, N.A. and the Authority as the same may be amended or supplemented from time to time.

Section 1.08. The term "Deposit Fund" shall mean an account established with the Bank pursuant to section 2.01 of this Agreement.

Section 1.09. The term "Enrollment Agreement" shall mean the contract between the Authority and a Purchaser pursuant to which the Purchaser agrees to purchase a Certificate in the Holder's name.

Section 1.10. The term "Issue Date" shall mean the date on which a Related Commonwealth College Opportunity Bond is issued.

Section 1.11. The term "Permitted Investments" shall mean:

- (1) direct general obligations of the United States of America ("Direct Obligations");

- (2) Repurchase agreements for obligations of the type specified in clause (1) above. "Repurchase Agreements" means a written agreement under which a federally insured banking institution with a capital and surplus aggregating at least one hundred million dollars sells to, and agrees to repurchase from, the Authority Direct Obligations; provided that such obligations are delivered to the Bank, simultaneously with the payment therefor, and that the market value of such obligations is, at the time of entering into the agreement, and as marked to market on a weekly basis thereafter, at least 102% of the repurchase price specified in the agreement;
- (3) shares of the Massachusetts Municipal Depository Trust; and
- (4) shares of money market funds rated AAA by Standard & Poor's or Moody's Investors Services, Inc., provided, however, that if the money market fund is rated by both rating agencies, the fund must be rated AAA by both.

Section 1.12. The term "Processing Fee" means the processing fee payable by the Purchaser at the time an application to purchase a Certificate is submitted.

Section 1.13. The term "Processing Fee Fund" shall mean an account by that name established with the Bank pursuant to section 3.01 of this Agreement.

Section 1.14. The term "Program Fee Funds" shall mean the Application Fee Fund and the Processing Fee Fund.

ARTICLE II

CUSTODY OF DEPOSIT FUND; INVESTMENT OF DEPOSIT FUND; APPLICATION OF AMOUNTS IN DEPOSIT FUND

Section 2.01. Custody of Deposit Fund. The Authority shall establish with the Bank a special account, to be called the Deposit Fund, separate from all other assets of the Authority, to hold until the applicable Purchase Date Deposits for the purchase of Program Bonds made by Purchasers pursuant to the Enrollment Agreement.

Section 2.02. Investment of Amounts in the Deposit Fund. The Authority shall invest amounts in the Deposit Fund in Permitted Investments maturing no later than the Allocation Date and, thereafter, maturing no later than the Issue Date.

Section 2.03. Application of Amounts in the Deposit Fund. At the direction of the Authority, the Deposits deposited in the Deposit Fund (excluding investment earnings

on such monies) shall be applied either (i) for transfer pursuant to Section 3.01 of the Custody Agreement to the Custodian on behalf of the Purchasers in connection with the purchase of Program Bonds or (ii) to provide refunds to Purchasers designated by the Authority in the event insufficient Program Bonds are issued to satisfy the applications of all Purchasers, all as provided in the Enrollment Agreement.

At the direction of the Authority, earnings, if any, on amounts in the Deposit Fund shall be transferred to or for the account of the Authority or to Purchasers as set forth below:

(i) until the Allocation Date, earnings on amounts in the Deposit Fund shall be retained therein;

(ii) on the Allocation Date, earnings on amounts in the Deposit Fund shall be transferred to the U. Plan savings accounts of Purchasers receiving refunds to the extent specified by the Authority, as provided for in the Enrollment Agreement;

(iii) after the Allocation Date and prior to the Issue Date, earnings on amounts in the Deposit Fund shall be retained therein, provided that the Authority may direct the Bank to transfer to or for the account of the Authority such portion of such earnings as the Authority determines is required for the payment of Program operating costs accruing during such period; provided that the Authority shall apply moneys pursuant to this clause (iii) only if and to the extent that moneys available under Section 3.03 and 3.04 are insufficient therefor; and

(iv) after the Issue Date, earnings on amounts in the Deposit Fund shall be transferred to or for the account of the Authority as directed by the Authority for the payment of Program operating costs and other program related expenditures.

ARTICLE III

CUSTODY OF PROGRAM FEE FUNDS; INVESTMENT OF PROGRAM FEE FUNDS; APPLICATION OF AMOUNTS IN PROGRAM FEE FUNDS

Section 3.01. Custody of Application Fee Fund and Processing Fee Fund. The Authority shall establish with the Bank a special account, to be called the Application Fee Fund, separate from all other assets of the Bank, to hold Application Fees paid by Purchasers. The Authority shall establish with the Bank a special account, to be called the Processing Fee Fund, separate from all other assets of the Bank, to hold Processing Fees paid by Purchasers.

Section 3.02. Investment of Amounts in the Program Fee Funds. The Authority shall invest amounts in the Application Fee Fund and in the Processing Fee Fund

in Permitted Investments maturing no later than the Allocation Date and, thereafter, maturing no later than the Issue Date.

Section 3.03. Application of Amounts in the Processing Fee Fund. At the direction of the Authority, monies deposited in the Processing Fee Fund (excluding investment earnings on such monies) shall be applied either (i) to provide refunds to each Purchaser designated by the Authority in the amounts designated by the Authority pursuant to the Enrollment Agreement in the event the initial principal amount of Certificates allocated to such Purchaser pursuant to the Enrollment Agreement is less than the Deposit made by such Purchaser or (ii) after the Issue Date, to the extent not required for the purpose described in clause (i), for transfer to or for the account of the Authority for the payment of Program operating costs and other program related expenditures. Earnings, if any, on amounts in the Program Fee Fund shall be transferred to or for the account of the Authority at the direction of the Authority for the payment of Program operating costs and other program related expenditures.

Section 3.04. Application of Amounts in the Application Fee Fund. At the direction of the Authority, monies deposited in the Application Fee Fund (excluding investment earnings on such monies) shall be applied either (i) to provide refunds to each Purchaser designated by the Authority in the amounts designated by the Authority pursuant to the Enrollment Agreement in the event the no Certificates can be provided to such Purchaser or (ii) after the Issue Date, to the extent not required for the purpose described in clause (i), for transfer to or for the account of the Authority for the payment of Program operating costs and other program related expenditures. Earnings, if any, on amounts in the Program Fee Fund shall be transferred to or for the account of the Authority at the direction of the Authority for the payment of Program operating costs and other program related expenditures.

ARTICLE IV

REFUNDS AND FORMS 1099

Section 4.01. Refunds. The Bank will process any refunds required to be made from the Deposit Fund or the Program Fee Funds, as directed by the Authority. Such refunds shall be made by the Bank to the U. Plan savings account established by the applicable Purchaser.

Section 4.02. Forms 1099. The Bank will prepare in the Authority's name a Form 1099 for any interest paid to a Purchaser in connection with a Deposit refund, to the extent such interest is required to be reported under applicable law.

ARTICLE V

THE BANK AND THE AUTHORITY

Section 5.01. Obligations of the Bank. The Bank shall at all times maintain a fidelity bond in such reasonable form and amount as commercial banks customarily provide to protect against loss due to dishonest or fraudulent action by its employees in connection with its obligations hereunder.

Section 5.02. Bank Not Responsible for Investment Results. The Bank is investing the Deposit Fund and the Program Fee Funds in accordance with the instructions of the Authority. To the extent the Bank carries out the instructions of the Authority, the Bank shall not be responsible for determining whether an investment is a Permitted Investment or for any losses of principal or amount of interest earned on such Funds.

Section 5.03. Charges and Expenses. Except as otherwise provided in this Custodial Account Agreement, no charges and expenses of the Bank shall be payable by or withheld from any person other than the Authority. In full payment and satisfaction of all other charges and expenses of the Bank (including, in each case, fees and expenses of counsel) incidental to the performance of its obligations hereunder, the Authority shall pay the Bank an amount determined in accordance with a separate agreement between it and the Bank. Notwithstanding the foregoing, except as provided below, no fees shall be payable by the Authority to the Bank in connection with the functions performed by the Bank under this Custodial Account Agreement during any period in which the Bank is also the Program Recordkeeper. The Bank may assess the Authority with a charge for the preparation of any Form 1099s pursuant to Section 4.02, which shall be in an amount of \$2.50 per Form 1099, but shall not in any event exceed \$50,000 in the aggregate for all Forms 1099 prepared in connection with any refunds of Deposits and allocable interest made during a particular Enrollment Period. Such charges shall be payable by the Authority solely from moneys available to the Authority under the Program for such purposes.

ARTICLE VI

MISCELLANEOUS

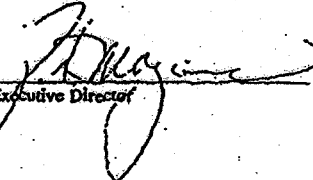
Section 6.01. Counterparts. This Custodial Account Agreement may be executed in any number of counterparts by the parties thereto on separate counterparts, each of which (or each full set of separately signed counterparts), when so executed and delivered, shall be deemed an original, but all such counterparts shall together constitute one and the same instrument.

Section 6.02. Governing Law. This Custodial Account Agreement and the Certificates shall be governed by, and construed in accordance with, the laws of The Commonwealth of Massachusetts.

SHAWMUT BANK, N.A.,
as custodian

By: 
Vice President

MASSACHUSETTS EDUCATIONAL
FINANCING AUTHORITY

By: 
Executive Director

120048.1

PARTICIPATION AGREEMENT

Between

MASSACHUSETTS EDUCATIONAL FINANCING AUTHORITY

and

(Institution)

Dated as of _____, 1994

PARTICIPATION AGREEMENT

Table of Contents

	Page
1. DEFINITIONS	1
2. PROGRAM MANUAL	4
3. TERM OF THE AGREEMENT	4
3.1 Initial Term	4
3.2 Extension of Term	5
3.3 Effective Year	5
4. COVENANTS OF THE INSTITUTION	5
4.1 Tuition Notification	5
4.2 Acceptance of Program Certificates	5
4.3 Amount of Program Certificate Proceeds	5
4.4 Tender of Proceeds of Program Certificates After Maturity of Program Bonds	6
4.5 Surplus Proceeds of Program Certificates	6
4.6 Refunds of Tuition	6
4.7 Dissolution of Institution	7
5. PAYMENTS BY THE AUTHORITY	7
5.1 Establishment of the Stabilization Fund	7
5.2 Distributions to Participating Institutions	7
5.3 Other Withdrawals from the Stabilization Fund	7
6. REPRESENTATIONS AND WARRANTIES OF THE AUTHORITY	7
6.1 Authority Status	7
6.2 Power and Authorization	7
6.3 Regulatory and Other Consents	8
6.4 Indemnification by the Authority	8
7. REPRESENTATIONS AND WARRANTIES OF THE INSTITUTION	8
7.1 Institution Status	8
7.2 Power and Authorization	9
7.3 Regulatory and Other Consents	9
8. GENERAL CONDITIONS OF AUTHORITY'S OBLIGATIONS	9
8.1 Opinion of Institution's Capital	9
8.2 Other Documents	10
8.3 Tuition Schedules	10
9. ADDITIONAL COVENANTS	10
9.1 Information Requested by the Authority	10
9.2 Inspection by the Institution	10
10. AUTHORITY ENFORCEMENT OF THE INSTITUTION'S OBLIGATIONS	10
11. MISCELLANEOUS	11
11.1 Amendment, Benefit Assignment	11
11.2 Waivers	11
11.3 Construction	11

11.4	Notices	11
11.5	Extension of Time	11
11.6	Opinion with Respect to Tax Matters	11
11.7	Additional Provisions Applicable to Public Participating Institutions	11

PARTICIPATION AGREEMENT

AGREEMENT by and between the Massachusetts Educational Financing Authority (the "Authority"), acting on its own and as agent for Purchasers and Owners, and the undersigned educational institution (the "Institution"), and, if the Institution is a public institution, the Higher Education Coordinating Council of The Commonwealth of Massachusetts.

1. DEFINITIONS

The following capitalized terms used herein which are not otherwise defined in the Program Manual (hereinafter defined) shall have the following meanings:

"Act" means Chapter 15C of the General Laws of the Commonwealth, as amended from time to time;

"Allocable Educational Services" means a percentage of the Educational Services in effect for the year in which the Program Certificate Proceeds are tendered that equals the Educational Services Percentage;

"Applicable Educational Services Percentage" means a percentage of Educational Services in the year a Program Certificate is used at the Institution equal to the ratio of (i) the Educational Services Rate to (ii) the Tuition in effect in such year, multiplied by 100;

"Authority" means the Massachusetts Educational Financing Authority, a body politic and corporate created by the Act, and any successor thereto;

"Commonwealth" means The Commonwealth of Massachusetts;

"Designated Portion" means that percentage of Allocable Educational Services that an Owner designates for use on a particular Tuition Payment Date for a particular Qualifying Beneficiary at the Institution;

"Early Tender Date" means August 1 of either of the two years preceding the Maturity Date of a Related Program Bond, provided the Owner has sold the Program Certificate to the Authority effective as of such August 1, provided, however, that the earliest Early Tender Date shall be August 1, 2000;

"Educational Services" means the services and rights the Institution provides to a Student in return for the Student's payment of Tuition to the Institution but Educational Services shall not include fees for room and board, travel, health care, books, supplies or equipment;

"Educational Services Percentage" means the percentage of Educational Services that the Investment Amount of the Program Certificate would purchase in the academic year beginning during the calendar year in which the Related Program Bond was issued. The Educational Services Percentage may exceed 100%.

"Educational Services Rate" means a dollar amount equal to (i) the product of the Allocable Educational Services and the Tuition in effect on the Maturity Date of the Related Program Bond (assuming payment to the Institution of the Program Certificate Proceeds) multiplied by (ii) a fraction consisting of (A) the proceeds of a Program Certificate paid to the Institution over (B) the Program Certificate Proceeds which the Institution would have received in the Maturity Year under Section 4.3 as a condition to providing the Allocable Educational Services;

"Enrollment Agreement" means the contract between the Authority and a Purchaser pursuant to which a Purchaser agrees to purchase a Program Certificate on behalf of an Owner;

"Effective Year" means the Program Year in which this Agreement is executed, each prior academic year in which the Program was in effect, and any subsequent Program Year which the Authority and the Institution have agreed will be an Effective Year pursuant to Section 3.3 of this Agreement;

"Index" means the Consumer Price Index - All Urban Consumers, All Items, as published by the United States Department of Labor, Bureau of Labor Statistics during the calendar month preceding the calendar month of the Issue date of a Related Program Bond and during the calendar month preceding each applicable compounding date on the Related Program Bond;

"Initial Program Bonds" or "Initial Bonds" means the Program Bonds issued on or before August 1, 1995;

"Instate Tuition" means in the case of any public Participating Institution, Tuition payable by a Student who is a resident of the Commonwealth;

"Institutional Representative" means the representative or representatives of the Institution, appointed in accordance with the provisions of the Program Manual, authorized to communicate with the Authority on behalf of the Institution, and with whom the Authority is entitled to communicate about the Program;

"Investment Amount" means the moneys committed by Purchasers to the Authority for the purchase of a Program Certificate;

"Mandatory Fees" means non-waivable fees required by the Institution for the enrollment or attendance of a Student at the Institution in the applicable academic year or the fees required for courses of instruction at the Institution in the applicable academic year, as reported by the Institution to the Authority;

"Maturity Date" shall mean August 1 of the year in which a Related Program Bond matures;

"Nonresident Tuition" means in the case of any public Participating Institution, Tuition payable by a Student who is not a resident of the Commonwealth;

"Owner" means the designated owner of a Program Certificate;

"Participating Institution" means a non-profit, degree-granting educational institution within the Commonwealth authorized by law to provide a program of education beyond the high school level which has entered into a Participation Agreement with the Authority;

"Participation Agreement" means this Agreement and any similar agreement, as amended from time to time, between a Participating Institution and the Authority;

"Program" means the Authority's financing program through which Purchasers of Program Certificates may purchase a guaranteed percentage of Educational Services for a Qualifying Beneficiary accepted for attendance at the institution or other Participating Institution in a Qualifying Year;

"Program Bond" means the Commonwealth's general obligation, variable rate jumbo municipal bonds purchased by the Authority and beneficially owned by participants in the Program;

"Program Certificate" means an Owner's fractional interest in a Program Bond of a particular maturity;

"Program Certificate Proceeds" means the dollar value of the Program Certificate payable to the institution pursuant to Section 4.3 on the Maturity Date or Early Tender Dates of the Related Program Bond;

"Program Manual" means the Authority's Operations Manual for the Program, as prepared and amended from time to time;

"Program Year" means the period from August 1 to July 31 of each year during the term of this Agreement;

"Purchaser" means any individual who or entity which purchases a Program Certificate and designates an Owner of such Program Certificate;

"Qualifying Beneficiary" means an Owner, an Owner's sibling or any lineal relation (as specified by the Authority) to the Owner or an Owner's sibling (including step or adopted lineal relations);

"Qualifying Year" means the academic year beginning in the calendar year of the Maturity Date and the two preceding academic years;

"Related Program Bond" means a Program Bond of a specified issue date and maturity in which the applicable Program Certificates are sold;

"Stabilization Fund" means the fund of that name established on the books of the Authority;

"Student" means (i) a student at the Institution who is pursuing studies or conducting research to meet the requirement for an undergraduate academic or undergraduate professional degree, or (ii) a full-time or part-time undergraduate student at the Institution, provided that the Institution provides an educational program that is acceptable for full-credit towards a bachelor's or higher degree, or offers a program of training to prepare students for gainful employment in a recognized occupation;

"Tuition" means tuition rates, whether expressed as annual, semester, trimester, quarter or credit-hour charges or otherwise, required for the enrollment or attendance of a full-time Student attending the Institution plus Mandatory Fees, as reported by the Institution to the Authority pursuant to the terms of this Agreement; in the case of a public Participating Institution, In-state Tuition and Nonresident Tuition shall be separately stated for purposes of each Participation Schedule, and reference to Tuition in this Agreement shall mean In-state Tuition or Nonresident Tuition, as applicable at the time of attendance to the Qualifying Beneficiary for whose benefit Program Certificate Proceeds are applied;

"Tuition Payment Date" means the date the initial payment of Tuition is due from students at the Institution in the applicable academic year;

2. PROGRAM MANUAL

The Institution agrees to comply with all terms, conditions and requirements of the Program Manual unless such terms, conditions or requirements, to the extent waivable by the Authority, are waived in writing by the Authority, provided that the Program Manual shall not, without the Institution's consent in writing, contain any provisions which materially alter in an adverse manner the rights or obligations of the Institution under this Agreement. The Program Manual shall be delivered to the Institution at least twenty (20) business days before its effective date and may be amended or supplemented by the Authority from time to time; provided, however, that no amendment or supplement which materially affects the rights or obligations of the Institution hereunder shall be made without the Institution's consent in writing; and provided, further, that no amendment or supplement shall be effective with respect to the Institution until twenty (20) business days after notice of such amendment or supplement has been mailed to the Institution unless the Institution consents in writing to earlier effectiveness. In the event of any conflict between the provisions of this Agreement and the Program Manual, this Agreement shall govern.

3. TERM OF THE AGREEMENT

- 3.1 **Initial Term.** The initial term of this Agreement shall terminate six years after the last year of maturity of the Initial Program Bonds. An Institution entering into this Agreement agrees to accept as provided in this Agreement Program Certificate Proceeds from any Program Certificates sold since the inception of the Program and prior to the date of execution of this Agreement (or, if later and to the extent applicable, the date of any renewal of the Institution's participation pursuant to

Section 3.3) as well as Program Certificate Proceeds relating to Program Certificates sold pursuant to an Enrollment Agreement executed during any Effective Year.

- 3.2 **Extension of Term.** The term of this Agreement shall automatically be extended to be coterminous with a date six years after the last year of maturity of any subsequently issued Program Bonds relating to Enrollment Agreements executed during any Effective Year.
- 3.3 **Effective Year.** Upon execution of this Agreement, the Institution shall execute an Effective Year Schedule in the form attached hereto as Exhibit A, and shall deliver such schedule to the Authority. Thereafter, each Program Year shall constitute an Effective Year unless on or before September 15 of such year the Institution shall have notified the Authority in writing of its intention that such Program Year shall not be an Effective Year. After any prospective termination of its participation pursuant to the preceding sentence, the Institution may recommence participation in the Program by executing an Effective Year Schedule in the form attached hereto as Exhibit A and delivering such schedule to the Authority on or before September 15 of the applicable Program Year. Any year designated by the Institution as an Effective Year in an Effective Year Schedule delivered by the Institution and countersigned by the Authority, and each year thereafter (unless notice of termination has been given pursuant to the second sentence of this Section 3.3) shall constitute an Effective Year hereunder.

4. COVENANTS OF THE INSTITUTION

- 4.1 **Tuition Notification.** Upon execution of this Agreement, the Institution agrees to provide the Authority with information relating to the Tuition charged by the Institution for the then current academic year; provided, however, that if the Institution executes this Agreement after any Program Bonds have been issued, the Institution will provide the Authority with its Tuition charges for all academic years since the year in which the oldest outstanding Program Bonds were issued. The Institution further agrees that by May 1, or as soon thereafter as practicable, of each year during the term of this Agreement, it will notify the Authority of its Tuition to be charged for the subsequent academic year.
- 4.2 **Acceptance of Program Certificates.** The Institution agrees that any eligible Student who is a Qualifying Beneficiary of any Program Certificate which is issued in an Effective Year (or on the August 1 immediately succeeding an Effective Year) and tendered in a Qualifying Year, shall receive the Designated Portion of the Allocable Educational Services upon receipt by the Institution of the Program Certificate Proceeds as provided in Section 4.3.
- 4.3 **Amount of Program Certificate Proceeds.** As a condition to providing the Designated Portion of Allocable Educational Services pursuant to Section 4.2, the Institution shall receive on the Tuition Payment Date in the applicable Qualifying Year Program Certificate Proceeds in an amount equal to (i) the Designated Portion multiplied by (ii) the Investment Amount of a Program Certificate increased on each August 1 to and

including the August 1 of the Program Year in which such Program Certificate Proceeds are received by the Institution by adding to the compounded value of the Program Certificate on the prior August 1 (or, in the case of the August 1 immediately following the issue date of the Related Program Bond, by adding to the Investment Amount) a dollar amount equal to the positive or negative percentage change in the Index since the preceding August 1 (or, in the case of the August 1 immediately following the issue date, the annualized positive or negative percentage change in the Index since the issue date) plus 200 basis points, multiplied by such prior compounded value (or Investment Amount), and prorated for any measuring period of less than a year. If the percentage change in the Index during any compounding period is negative, such negative percentage shall be deducted from the 200 basis points provided that if the resulting percentage is negative or zero, no adjustment shall be made to the prior compounded value.

4.4 **Tender of Proceeds of Program Certificate After Maturity of Program Bonds.** If the Institution receives from or on behalf of a Student proceeds of a Program Certificate on a Tuition Payment Date in a year, other than a Qualifying Year, that is within six years after the Maturity Date of the Related Program Bond, the Institution shall provide to such student a percentage of Educational Services equal to the Applicable Educational Services Percentage.

4.5 **Surplus Proceeds of Program Certificate.** In the event that the Designated Portion of the Allocable Educational Services exceeds 100% or exceeds the percentage of Educational Services not otherwise paid for with respect to the Qualifying Beneficiary for the academic year in which Program Certificate Proceeds are paid to the Institution, the Institution may agree to credit as a prepayment for Educational Services in one or more subsequent academic years in which the applicable Qualifying Beneficiary attends the Institution an aggregate percentage of Educational Services equal to such excess. If the Institution agrees to such prepayment, the Institution will credit such excess percentage of Educational Services among one or more of the remaining years of attendance of the Qualifying Beneficiary in such manner as permitted by the Institution. In the event that the Applicable Educational Services Percentage to be provided by the Institution pursuant to Section 4.4 exceeds 100% or exceeds the percentage of Educational Services not otherwise paid for with respect to the Qualifying Beneficiary for the academic year in which such proceeds are paid to the Institution, the Institution may agree to credit as a prepayment against Educational Services in one or more subsequent academic years in which the applicable Qualifying Beneficiary attends the Institution an aggregate percentage of Educational Services equal to such excess. If the Institution agrees to such prepayment, the Institution will credit such excess percentage of Educational Services among one or more of the remaining years of attendance of the Qualified Beneficiary in the manner permitted by the Institution.

4.6 **Refunds of Tuition.** If, under the policies of the Institution, a refund to the Student is due for any period for which proceeds of Program Certificates have been received by the Institution for such Student, the Institution will promptly notify the Authority and transmit to or upon the direction of the Authority a portion of the Tuition refund due to the Student in accordance with the established refund procedures of the Institution.

that is proportionate to the percentage of Educational Services provided by the Institution in exchange for the receipt of proceeds of Program Certificates.

- 4.7 **Dissolution of Institution.** The Institution shall give notice to the Authority within five days after the Institution adopts a resolution to dissolve, cease operations, merge or institute bankruptcy or insolvency proceedings.

5. PAYMENTS BY THE AUTHORITY

- 5.1 **Establishment of the Stabilization Fund.** The Authority shall establish on its books a fund to be named the Stabilization Fund. The Authority will deposit into the Stabilization Fund any amounts received by Owners as payments on Program Certificates on the maturity date thereof and which the Owners have agreed to pay to the Authority as a stabilization fee pursuant to the applicable Enrollment Agreement. The Authority shall invest and reinvest moneys in the Stabilization Fund from time to time, and earnings on such moneys shall be retained in the Stabilization Fund.
- 5.2 **Distributions to Participating Institutions.** The Authority shall make distributions to Participating Institutions from the Stabilization Fund within 90 days after the end of any Program Year, or as soon thereafter as is practicable, based on amounts available to be distributed as of the end of such Program Year, after providing first for Program Certificates tendered by Owners prior to maturity and second for any payments due pursuant to Section 6.4. The Authority shall allocate the portion of the Stabilization Fund to be distributed pro-rata among Participating Institutions in proportion to the ratio of (i) the amount of Program Certificate Proceeds paid to each Individual Participating Institution during such Program Year to (ii) the aggregate Program Certificate Proceeds paid to all Participating Institutions during such Program Year.
- 5.3 **Other Withdrawals from the Stabilization Fund.** The Authority may make withdrawals from the Stabilization Fund to the extent needed, in its discretion, to pay Program operating deficits.

6. REPRESENTATIONS AND WARRANTIES OF THE AUTHORITY

The Authority represents and warrants that:

- 6.1 **Authority Status.** The Authority is a body politic and corporate and an instrumentality of the Commonwealth, created by the Act, duly organized and validly existing and in good standing.
- 6.2 **Power and Authorization.** This Agreement is the valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms, the making and performance of which have been duly authorized by all necessary corporate and other action and does not (a) constitute a violation of any law or the charter or by-laws of the Authority, or (b) constitute a violation of any requirement imposed by any

court of competent jurisdiction or governmental authority or agency having jurisdiction over the Authority, or (c) constitute a default under any agreement or instrument by which it is bound or affected or (d) result in the creation of any encumbrance upon any of its assets, except to the extent herein expressly provided.

- 6.3 **Regulatory and Other Consents.** Neither the making nor performance of this Agreement by the Authority requires the consent or approval of any governmental authority or agency or other person or entity or, if any such consent or approval is required, such consent or approval has been obtained in writing and a copy thereof has heretofore been delivered to the Institution.
- 6.4 **Indemnification by the Authority.** Notwithstanding any other provision of this Participation Agreement, the Authority agrees to indemnify and hold harmless the Institution, its Trustees, officers, agents, and employees of and from any liability, cost or expense in connection with or growing out of any Claims whatsoever concerning the Program or this Participation Agreement, including any cost or liability arising from any judgment or decree of any court of competent jurisdiction or governmental authority or agency, but excluding any cost or liability arising solely and directly from the negligence of the Institution provided, however, that such indemnification shall be payable only from amounts accumulated in the Stabilization Fund. For purposes of the foregoing sentence, Claims shall mean any judgment or decree that the Program or the Participation Agreement constitutes a violation of state or federal law, or any judgment arising from misrepresentations made by the Authority and its agents concerning the Program, its implementation, and the legal consequences thereof.

7. REPRESENTATIONS AND WARRANTIES OF THE INSTITUTION

The Institution represents and warrants that:

7.1 **Institution Status.**

(a) [Applicable to Independent Participating Institutions]. It is a non-profit degree-granting educational institution in the Commonwealth authorized under federal or state law to provide a program of education beyond the high school level and is accredited by a nationally recognized accreditation agency, is duly organized and validly existing and in good standing and has the power and authority, corporate and other, to own its properties and to operate as such an educational institution. It is an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on.

(b) [Applicable to public Participating Institutions]. It is a public degree-granting educational institution in the Commonwealth authorized under federal or state law to provide a program of education beyond the high school level and is accredited by a nationally recognized accreditation agency, is duly organized and validly existing and in good standing with lawful power to operate as such an educational institution. It is an educational organization which normally maintains a regular faculty and curriculum

and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on.

7.2 Power and Authorization.

(a) [Applicable to independent Participating Institutions]. This Agreement is the valid and binding obligation of the Institution, enforceable against the Institution in accordance with its terms, the making and performance of which have been duly authorized by all necessary corporate and other action and does not (i) constitute a violation of any law or the charter or by-laws of the Institution, or (ii) constitute a violation of any requirement imposed by any court of competent jurisdiction or governmental authority or agency having jurisdiction over the Institution, or (iii) constitute a default under any agreement or instrument by which it is bound or affected or (iv) result in the creation of any encumbrance upon any of its assets, except to the extent herein expressly provided.

(b) [Applicable to public Participating Institutions]. This Agreement is the valid and binding obligation of the Institution, enforceable against the Institution in accordance with its terms, the making and performance of which have been duly authorized by all necessary action and does not (i) constitute a violation of any law or the charter or by-laws of the Institution, or (ii) constitute a violation of any requirement imposed by any court of competent jurisdiction or governmental authority or agency having jurisdiction over the Institution, or (iii) constitute a default under any agreement or instrument by which it is bound or affected or (iv) result in the creation of any encumbrance upon any of its assets, except to the extent herein expressly provided.

7.3 Regulatory and Other Consents. Neither the making nor performance of this Agreement by the Institution requires the consent or approval of any governmental authority or agency or other person or entity or, if any such consent or approval is required, such consent or approval has been obtained in writing and a copy thereof has heretofore been delivered to the Authority.

8. GENERAL CONDITIONS OF AUTHORITY'S OBLIGATIONS

The Authority's obligations under this Agreement are subject to the following conditions precedent, which are required to be satisfied on the date of the execution and delivery of this Agreement:

8.1 Opinion of Institution's Counsel. The Authority shall have received the favorable written opinion, in substantially the form of Exhibit B, of counsel for the Institution confirming the matters represented in Sections 7.1, 7.2 and 7.3 and such other matters as the Authority may reasonably require, subject to the qualification that the provisions hereof may not be enforceable against the Institution in the event of bankruptcy of the Institution. The opinion of counsel for the Institution, as to the subject matters of Section 7.2(b), (iii) and (iv) and Section 7.3, shall be limited to the extent of such counsel's knowledge in reliance upon the certification of the Institution as to factual matters deemed relevant by such counsel.

8.2 **Other Documents.** The Authority shall have received such other documents executed by or relating to the Institution as may reasonably be requested by the Authority at any time on or prior to delivery of this Agreement.

8.3 **Tuition Schedule.** The Authority shall have received the Institution's Tuition schedule for all prior years with respect to which Program Bonds are outstanding.

9. ADDITIONAL COVENANTS

From the date hereof, and so long as Program Bonds issued during the term of this Agreement remain outstanding, the Institution covenants as follows:

9.1 **Information Requested by the Authority.** At any time during regular business hours and upon reasonable advance written notice, to the extent permitted by law, the Authority or any agent or representative designated by the Authority shall be entitled to (i) obtain from the Institution specified information from the books of account, records, reports and other papers of the Institution relating to the Program, including tuition and Mandatory Fee schedules and account information with respect to Qualified Beneficiaries who are Students at the Institution, to the extent permitted by law, (ii) request copies and extracts certified as to accuracy therefrom for which a reasonable copying charge may be assessed to the Authority, and (iii) discuss with any officer of the Institution any matter relating to this Agreement, the Program or the Institution's participation in the Program.

9.2 **Inspection by the Institution.** At any time during regular business hours and upon reasonable advance written notice, to the extent permitted by law, the Institution or any agent or representative designated by the Institution shall be entitled to (i) examine the books of account, records, reports and other papers of the Authority relating to the Program, to the extent permitted by law, (ii) make or request copies and extracts therefrom for which a reasonable charge may be assessed to the Institution, and (iii) discuss with any officer of the Authority any matter relating to this Agreement or the Program.

10. AUTHORITY ENFORCEMENT OF THE INSTITUTION'S OBLIGATIONS

If the Institution fails to comply with any of its obligations hereunder, the Authority shall take such actions at law or in equity to enforce such obligations as the Authority shall deem appropriate.

11. MISCELLANEOUS

- 11.1 **Amendment, Benefit Assignment.** This Agreement (i) may be amended, supplemented or modified only by an instrument duly executed by the Authority and the Institution; (ii) shall be binding upon and inure to the benefit of the Authority, the Institution and the Higher Education Coordinating Council and their respective successors and assigns; and (iii) may not be assigned by either party hereto without the prior written consent of the other. The Owners and Qualified Beneficiaries of Program Certificates are intended third party beneficiaries of the Institution's and the Authority's undertakings in this Agreement.
- 11.2 **Waiver.** No failure to exercise and no delay in the exercise of any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof, or the exercise of any other right. The Authority reserves the right to waive provisions of this Agreement or consent to departures therefrom. No waiver of any provision of this Agreement, or consent to departures therefrom, shall be effective unless in writing and signed by the waiving or consenting party and no such consent or waiver shall extend beyond the particular case and purpose involved. No notice or demand given in any case shall constitute a waiver of the right to take other action in the same, similar or other instances without such notice or demand.
- 11.3 **Construction.** This Agreement and all documents related hereto shall be deemed to be contracts made and delivered in the Commonwealth and shall be governed and construed in accordance with the law of the Commonwealth. Headings and titles herein are for convenience only.
- 11.4 **Notices.** All communications between the parties hereto shall be in writing addressed, if to the Authority, at 176 Federal Street, Boston, Massachusetts 02110, Attention: Executive Director, and, if to the Institution, at the Institution's address set forth on the signature page hereof, to the attention of the Institutional Representative or at such other address as either party shall designate to the other party in such manner.
- 11.5 **Extension of Time.** Whenever any payment hereunder is due, or any period of days specified herein expires, on a date which is a Saturday, Sunday or legal holiday in the Commonwealth or in Suffolk County within the Commonwealth, such payment shall become due on the next succeeding business day.
- 11.6 **Opinion with Respect to Tax Matters.** Upon the issuance of the Program Bonds and upon the request of the Institution, the Institution shall receive a letter certifying that the Institution may rely on the opinion given by counsel to the Authority to or for the benefit of Owners relating to federal tax aspects of the Program.
- 11.7 **Additional Provisions Applicable to Public Participating Institutions.** In the case of public Participating Institutions, this Agreement shall be subject to the provisions contained in Addendum A hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers, and this Agreement shall be an agreement made under seal, as of _____, 1994.

MASSACHUSETTS EDUCATIONAL
FINANCING AUTHORITY

BY: _____ (Seal)
Title: Executive Director

INSTITUTION

BY: _____ (Seal)
Title: _____

Institution's Address:

4/15/94

[Applicable to Participation Agreements with public Participating Institutions]

The provisions of this Agreement with respect to the provision of Educational Services upon the receipt of proceeds of Program Certificates, including without limitation the provisions of Article 4 of this Agreement and the agreements set forth in Addendum A, are hereby authorized, approved and agreed upon.

HIGHER EDUCATION COORDINATING
COUNCIL OF THE COMMONWEALTH OF
MASSACHUSETTS

BY: _____
Title: Chancellor

EXHIBIT A

Effective Year Schedule

The undersigned Institution hereby agrees that the period August 1, 19__ to July 31, 19__ shall be an Effective Year, and that, until notice to the contrary is provided by the Institution in accordance with Section 3.3 of the Participation Agreement, each subsequent Program Year shall be an Effective Year, for purposes of the Participation Agreement dated as of _____ between the Institution and the Massachusetts Educational Financing Authority.

INSTITUTION

By: _____ (Seal)
Title:

EXHIBIT B

Form of Counsel's Opinion

[Date]

Massachusetts Educational Financing Authority
176 Federal Street
Boston, MA 02110

Members of the Authority:

We/I have acted as counsel to _____ (the "Institution") in connection with the Institution's execution and delivery of the Participation Agreement dated as of [Date] between the Institution and the Massachusetts Educational Financing Authority (the "Agreement"). In this connection, we/I have examined such documents and certificates of public officials and officers of the Institution as we/I have deemed necessary for the purposes of this opinion.

Based upon the foregoing, we/I are of the opinion that:

1. [For Independent Participating Institutions] The Institution is a non-profit educational corporation duly incorporated and validly existing under the laws of The Commonwealth of Massachusetts, with full corporate power to own its properties, to operate as an educational institution and to carry out and perform its obligations under the Agreement.
1. [For public Participating Institutions] The Institution is an agency of The Commonwealth of Massachusetts duly constituted and validly existing under the laws of The Commonwealth of Massachusetts, with lawful power to operate as an educational institution and to carry out and perform its obligations under the Agreement.
2. The Agreement has been duly authorized, executed and delivered by the Institution and constitutes a valid and legally binding obligation of the Institution and is enforceable against the Institution in accordance with the terms thereof (subject to bankruptcy and other laws affecting creditors' rights generally).
3. The execution and delivery of the Agreement by the Institution and the performance by the Institution of its obligations thereunder will not (a) constitute a violation of the charter or by-laws of the Institution or (b) constitute a violation of any requirement imposed on the Institution by any court of competent jurisdiction or governmental authority or agency having jurisdiction over the Institution or (c) constitute a default under any provision of any agreement or instrument binding upon the Institution or (d) result in the creation of any encumbrances upon any of the Institution's assets, except to the extent hereto expressly provided.
4. The authorization, execution and delivery, or performance of the Agreement by the Institution does not require submission to, consent or approval of, or other action by any governmental authority or agency or other person or entity, other than consents or approvals which have been obtained in writing and copies thereof delivered to the Authority.
5. We know of no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any judicial or administrative court or agency, pending or threatened, against the Institution wherein any unfavorable decision, ruling or finding might materially and adversely affect the validity or enforceability of the Agreement.

Very truly yours,

4410001

ADDENDUM A

Applicable to Public Participating Institutions

IA. DEFINITIONS

"HECC" means the Higher Education Coordinating Council of The Commonwealth of Massachusetts.

"Tuition Component" means for a particular Qualifying Beneficiary (i) if Program Certificate Proceeds are applied at the Institution pursuant to Section 4.3 of this Participation Agreement in a Qualifying Year, the dollar amount equal to the lesser of (A) the Tuition Percentage applied to such Program Certificate Proceeds and (B) the Designated Portion of Allocable Educational Services applied to the Tuition (excluding Mandatory Fees) in effect in such Qualifying Year and (ii) if proceeds of a Program Certificate are applied at the Institution pursuant to Section 4.4 of this Participation Agreement in a year other than a Qualifying Year, the dollar amount equal to the lesser of (A) the Tuition Percentage applied to the amount of such proceeds and (B) the Applicable Educational Services Percentage applied to the Tuition (excluding Mandatory Fees) in effect for the academic year with respect to which such proceeds are received.

"Tuition Percentage" means (i) Tuition (excluding Mandatory Fees) for the academic year used in determining the Educational Services Percentage, divided by (ii) Tuition (including Mandatory Fees) for such year, expressed as a percentage.

"Tuition Waiver Amount" means for a particular Qualifying Beneficiary (i) if Program Certificate Proceeds are applied at the Institution pursuant to Section 4.3 of this Participation Agreement in a Qualifying Year, the dollar amount equal to the difference, if any, between (A) the Designated Portion of Allocable Educational Services applied to the Tuition (excluding Mandatory Fees) in effect in such Qualifying Year and (B) the Tuition Component and (ii) if proceeds of a Program Certificate are applied at the Institution pursuant to Section 4.4 of this Participation Agreement in a year other than a Qualifying Year, the dollar amount equal to the difference, if any, between (A) the Applicable Educational Services Percentage applied to the Tuition (excluding Mandatory Fees) in effect for the academic year with respect to which such proceeds are received and (B) the Tuition Component.

4A. TUITION WAIVER

Pursuant to and in accordance with Massachusetts General Laws c. 15A, §19, the attached October 19, 1994 vote by HECC and the tuition waiver program adopted pursuant to such vote, HECC shall waive for the duration of this Participation Agreement with respect to any Student who is a Qualifying Beneficiary, an amount of tuition payable in any year proceeds of a Program Certificate are applied pursuant to Section 4.3 or 4.4 of this Participation Agreement equal to the Tuition Waiver Amount.

4B. TUITION TO BE FORWARDED BY THE INSTITUTION

HECC hereby agrees that, during any period in which this Participation Agreement is in effect and during which the Institution is obligated to transfer amounts received with respect to tuition to the General Fund of the Commonwealth, the amount of proceeds of a Program Certificate received pursuant to Section 4.3 or 4.4 of this Participation Agreement to be forwarded by the Institution to the General Fund shall be the Tuition Component and all other such proceeds shall be held at the Institution upon such trust or trusts as it shall from time to time determine.

7A. REPRESENTATIONS AND WARRANTIES OF THE HIGHER EDUCATION COORDINATING COUNCIL OF THE COMMONWEALTH OF MASSACHUSETTS

HECC represents and warrants that:

- 7A.1 Power and Authorization. This Agreement is the valid and binding obligation of HECC, enforceable against the Commonwealth in accordance with its terms, the making and performance of which have been duly authorized by all necessary action.
- 7A.2 Regulatory and Other Consents. Neither the making nor performance of this Agreement by HECC requires the consent or approval of any other governmental authority or agency or other person or entity or, if any such consent or approval is required, such consent or approval has been obtained in writing and a copy thereof has heretofore been delivered to the Authority.

8A. OPINION OF COUNSEL TO HECC

The Authority shall receive an opinion in the following form from HECC:

FORM OF COUNSEL'S OPINION

(Date)

Massachusetts Educational Financing Authority
176 Federal Street
Boston, MA 02110

Members of the Authority:

We/I have acted as counsel to the Higher Education Coordinating Council of The Commonwealth of Massachusetts ("HECC") in connection with HECC's execution and delivery of the Participation Agreement dated as of (Date) by and among _____ (the "Institution"), the Massachusetts Educational Financing Authority and HECC (the "Agreement"). In this connection, we/I have examined such documents and certificates of public officials and officers of the Institution as we/I have deemed necessary for the purposes of this opinion.

Based upon the foregoing, we/I are of the opinion that:

1. The Agreement has been duly authorized, executed and delivered by HECC and constitutes a valid and legally binding obligation of HECC and is enforceable against The Commonwealth of Massachusetts with respect to matters approved by HECC (subject to bankruptcy and other laws affecting creditors' rights generally).
2. The authorization, execution and delivery, or performance of the Agreement by HECC does not require submission to, consent or approval of, or other action by any other governmental authority or agency or other person or entity, other than consents or approvals which have been obtained in writing and copies thereof delivered to the Authority.
3. We know of no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any judicial or administrative court or agency, pending or threatened, against HECC wherein any unfavorable decision, ruling or finding might materially and adversely affect the validity or enforceability of the Agreement.

Very truly yours,

44194